THE Business History Review

The BUSINESS HISTORY REVIEW

PUBLISHED QUARTERLY BY THE HARVARD GRADUATE SCHOOL
OF BUSINESS ADMINISTRATION

VOL. XXXII, NO. 3 – AUTUMN, 1958

The BUSINESS HISTORY REVIEW is published in the Spring, Summer, Autumn, and Winter. Address all communications, including manuscripts and change of address, to Business History Review, 214–16 Baker Library, Soldiers Field, Boston 63, Massachusetts. Telephone KIrkland 7–9800. Regular subscription rate $10 per year. Special rate for teachers and students $5 per year. Single copies and reprints of most articles are available; information on request.

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Contents are currently indexed in the Business Periodicals Index, The H. W. Wilson Co., 950 University Ave., New York City. Entered as second-class matter at Boston, Massachusetts. Printed at the Harvard University Printing Office.

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BOOK REVIEWS

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Samuel Insull and the Movement for State Utility Regulatory Commissions*

It was one of history's sardonic pranks that the forces deriding business efficiency and clamoring for regulation made Samuel Insull a favorite scapegoat. He had built his early electric system in Chicago with vision, administrative and political skill, and a conspicuously advanced concept of public relations. Insull espoused the "natural monopoly" principle, but he shocked contemporaries by insisting upon the corollary necessity for public control. He fought hard and effectively for state regulation, not as a radical theorist but as a realist with a record of public service unsurpassed in the infant electric utility industry.

By the mid-1890's virtually everyone in the infant electric central station industry was aware that Samuel Insull's views on the operation of utilities were rather unorthodox. Hence, on the morning of June 7, 1898, when Insull arose to deliver his presidential address before the annual convention of the National Electric Light Association, many delegates no doubt expected something out of the ordinary. Few, however, could have anticipated just how much out of the ordinary Insull's address would be. Traditionally, N.E.L.A. presidential addresses had (a) welcomed the delegates,

*Bibliographical Note: Adequate annotation of this article would require almost as much space as the article itself. Of the large quantities of materials being used in my research toward a biography of Insull, however, a few may be singled out as bearing most directly on Insull's role in the movement for regulation:

On Insull's personal and political affairs, four sets of manuscripts are most important – his Memoirs (dictated in 1934); his correspondence files (covering the years 1897–1935); the notes of Burton Y. Berry of the State Department, recording Insull's shipboard conversations upon his return from Greece in 1934; and his public addresses. All these manuscripts are the property of Samuel Insull, Jr., and are on loan to the American History Research Center, quartered in the State Historical Society of Wisconsin. A number of the speeches were published, as *Central Station Electric Service* (Chicago, 1915) and *Public Utilities in Modern Life* (Chicago, 1924).

On Insull's business activities, of greatest importance are the Insull and Edison papers in the Edison Museum, West Orange, New Jersey, the corporate records of Commonwealth Edison Company, Peoples Gas Company (each in company archives), and Middle West Utilities Company (in the archives of Central and South West Corporation, Chicago). Commonwealth Edison also has several file drawers of Insull papers, newspaper clippings, and miscellaneous data relating to public relations and political activities.

On Insull's efforts to sell the electric utility industry on regulation, the most important source is the annual *Proceedings of the National Electric Light Association*

(b) lamented the current epidemics of political radicalism, and (c) [if they got beyond (b)] made various comments on practical operating problems. Insull, instead of denouncing the activities of the populists, socialists, anarchists, and other nascent progressives, went them one better. To his startled fellows he proposed that the electric utility industry seek to have itself regulated by governmental bodies, clothed with full power to fix rates and standards of service, and seek to alter the conditions of franchises so that if a company failed to render satisfactory service, the municipality it served would have the right to acquire its plant at cost less depreciation. Furthermore, Insull asserted that the ultimate interests of the industry itself required such restrictions, and he urged that it actively lobby for legislation to bring them about.

This heresy, coming a decade before there existed a single state utility commission with power to fix rates, was received with about as much enthusiasm as a Bryan Democrat might have expected from a convention of the American Bankers Association. Anticipating a hostile reaction, Insull had attempted to slant the convention's program in such a way as to suggest that unless the industry sought regulation it would suffer something a good deal worse. He did succeed in winning a few supporters: Alex Dow of Detroit, Samuel Scovil of Cleveland, H. M. Atkinson of Atlanta, and Ernest H. Davis of Williamsport, Pennsylvania, and he appointed these men, along with himself, to serve as the N.E.L.A.'s Committee on Legis-

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(published annually by the Association in New York), particularly for the years 1897–1910. On the activities of the National Civic Federation, see its *Municipal and Private Operation of Public Utilities* (3 Vols.; New York, 1907); especially Vol. I. Of key importance also is John R. Commons' autobiography, *Myself* (New York, 1934), which describes the work of the Federation and tells of Commons' drafting of the law establishing the pioneer Wisconsin Railroad Commission, on the basis of his experience with the Federation.

On Chicago and Illinois politics, the Insull papers mentioned earlier are the most valuable, but the files of the *Chicago Tribune* and other Chicago newspapers are also important, as are several Illinois state documents. See particularly the *Report of the Special House Committee Appointed to Investigate the Charges of Corruption Concerning Traction Legislation* (Springfield, 1903); *Majority and Minority Report of the Special Committee on Public Utilities . . . together with a Draft of a Bill to Provide Local Control of Public Utilities* in Chicago (Springfield, 1917); and Illinois Senate Committee on Public Utilities, *Reply of Public Utilities Commission to Criticisms. . .* (Springfield, 1919). The unpublished Memoirs of State Senator Richard Barr (copy in possession of William H. Stuart, Chicago) and Carter H. Harrison's autobiography, *Stormy Years* (Indianapolis and New York, 1935), are of great importance, as are numerous secondary works, such as William H. Stuart's *The Twenty Incredible Years* (Chicago, 1935), William T. Hutchinson's *Lowden of Illinois: The Life of Frank O. Lowden* (Chicago, 1957), and Lloyd Wendt and Herman Kogan, *Big Bill of Chicago* (Indianapolis and New York, 1953).

Various other sources are generally useful. Among these are the files of the *Wall Street Journal;* the Henry Villard Papers (Houghton Library, Harvard); Forrest McDonald, *Let There Be Light: The Electric Utility Industry in Wisconsin, 1881–1955* (Madison, 1957), especially pages 114–122; Carl D. Thompson, *Public Ownership* (New York, 1925), especially the tables on pages 268–289. Finally, interviews with a wide variety of persons in Chicago have been quite informative.

lative Policy, a committee he established by executive decree. But his recommendations were premature; the 1898 convention killed all of Insull's proposals for positive action regarding regulation, and for the next half dozen years the Committee on Legislative Policy floundered for lack of support.

Insull's remarkably farsighted and responsible 1898 address was not built on ivory-tower theory. His ideas regarding regulation had a philosophical basis, it is true, but in essence they were the product of seventeen years of experience and reflection by a tough-minded, practical businessman, one who had been in the electric business since 1881, when he came from London to become Thomas A. Edison's private secretary.

The philosophical roots of Insull's concept of the relationship between government and business were distinctly European. In the England in which he grew up, economic enterprise had traditionally been held subservient to the national welfare, and the American idea of unrestrained free enterprise — that private economic endeavor was anterior to government and morally beyond control by it — was alien to him. Growing to maturity as a businessman on Wall Street in the 1880's might have altered Insull's predispositions, but as it happened his closest associate during those years, apart from Edison, was Henry Villard. Villard, the German-born railroad magnate who financed many of Edison's electrical enterprises, fully understood and sympathized with the program of government-controlled cartels that was then transforming Bismarck's Germany. From him Insull derived the "natural monopoly" principle, and he went far beyond Villard in his acceptance of its logical and necessary corollary, the principle of public control.

In 1892 Insull left Villard, Edison, and the electric manufacturing business, to become president of the Chicago Edison Company, a small electric central station. In his new job he soon learned that, whatever the philosophical merits of the question, in his business and under his circumstances, monopoly and regulation were infinitely more practical than the American ideals of competition and free enterprise.

Monopoly was dictated by the unique economics of the business of central station electric supply. Insull was among the first utility operators to recognize that in his business the most important costs, by far, were fixed costs on the plant investment, and that the investment per dollar of gross revenue was several times as large

as in manufacturing or commercial enterprises. Hence competition resulted neither in lower rates nor in good service, but in duplication of investment and higher rates; in too much service in the areas of greatest consumption and little or no service in the areas of limited consumption.

Governmental regulation was dictated not as a theoretical corollary of the need for monopoly, but by the immediate political circumstances under which Insull operated. In any political system in which government is by the consent of the governed, utilities are likely to be in politics, partly because of their public character and partly because politicians have found it expedient to make them so. Insull soon learned that in the political jungle that was Chicago in the 1890's this maxim had exaggerated validity. On the one hand, this was the age of Charles Tyson Yerkes, the traction baron whose contempt for both voters and customers was apparently unbounded, and who allegedly bribed legislators as a matter of regular policy. On the other, it was the age of the "grey wolves," those boodling aldermen who reputedly sold ordinances according to a fixed schedule of bribes, and who had developed the utility franchise racket into a fine art. So far, gas and transportation utilities had suffered most, for electric companies were as yet small potatoes, but at the rate the electric business was growing it would not be long before barons and boodlers alike would turn their hungry gaze upon it. Insull saw, in the rising tide of popular protest against these evils, a way out of the jungle: remove control of utilities from municipalities and lodge it in the hands of expert, nonpolitical state utility commissions.

But until this could be brought about, wasteful competition and corrupt politics were immediate practical problems. Insull set about solving them in a practical way, and by the time of his N.E.L.A. address in 1898 he had achieved both a citywide monopoly and temporary immunity from the most blatant forms of political raiding. He brought about the monopoly by daring technical innovations, by careful study of the economics of his business, and by exploitation of special knowledge he brought with him from the electric manufacturing business. He knew that in the vigorous competition of the 1880's virtually all electric manufacturers had promoted local lighting companies by granting them exclusive patent licenses; he knew which of the thirty-odd lighting companies in Cook County had rights to which patents; and he knew which manufacturers controlled patents after the consolidations of

the manufacturing companies in the late 1880's and early 1890's. In his first five years in Chicago, by purchasing the proper lighting companies Insull obtained for his Chicago Edison Company the exclusive right to use certain vital kinds of equipment, with the result that thenceforth no competitor could build a complete modern central station without his approval. This not only brought him a monopoly of service, but also made him immune to the franchise racket as well. Politicians could now enfranchise new electric companies by the score, and none could operate in competition with Insull without his approval.

This left unsolved the basic problem of franchise duration, until, in 1897, Insull seized an opportunity unwittingly provided by local politicians, and turned an effort at boodling into long-range franchise security. Under Illinois law, utility franchises could not be granted for periods longer than 20 years; the resulting insecurity of property both discouraged the investment of capital in utilities and encouraged management to extract all possible profit before the franchise expired. Yerkes, as the man with most at stake, was ever-watchful for opportunity to improve the status of his own franchises, which were due to expire in 1903. In the early and middle 1890's he had successfully pushed measures through the legislature, only to see them vetoed by reform Governor John P. Altgeld. In the 1896 elections Altgeld was unseated by the more amenable John R. Tanner, and Yerkes quickly moved into action. Early in the 1897 session of the Illinois legislature, a Yerkes man introduced an audacious measure that would extend the franchises of all local transportation companies for 100 years. This bill was defeated, whereupon Yerkes secured the passage of the so-called Allen Law, whereby the period for which municipalities were permitted to enfranchise utilities was extended to 50 years. Yerkes himself, caught up in a wave of popular hostility and the enmity of Chicago Mayor Carter Harrison II, failed to profit by the Allen Law. But during the confusion the powerful Hopkins-Sullivan faction of the Democratic party, seeing an opportunity to turn an easy dollar, pushed through the Common Council a 50-year franchise for an as-yet nonexistent lighting company, which they styled Commonwealth Electric Company. Upon finding that they were unable to use it to compete with Insull's Chicago Edison Company, the politicians offered the franchise to Insull for $50,000. With some misgivings about the price, Insull bought the franchise because his own had only 10 years to run. Soon afterward the Allen Law was

repealed, and Insull found himself holding the only franchise in Illinois that extended beyond 20 years – and his would not expire until 1947.

But it required little foresight on Insull's part to realize that his footing was as precarious as it was fortunate. Popular feeling against Yerkes in Chicago and against steam railroads everywhere was reaching a furious intensity, and it was almost certain to spill over and affect other utilities as well as transportation. Furthermore, the vicissitudes of urban politics, particularly in Chicago, were always uncertain and often deadly. Consequently, Insull initiated and executed decisive courses of action on two fronts: at home in Chicago and in the industry at large.

In Chicago the task was to hold his position and avoid the brewing political storm. This Insull accomplished by the simple expedient of making frequent rate cuts. The cuts were sound economics, justified by regular increase in consumption and promising to stimulate still more consumption, but they were also made with an extraordinary sense of political timing. Every time Chicago politicians threatened to channel popular feeling against Yerkes, the steam railroads, or the local gas companies into a wave of anti-utility ordinances, Insull acted before the movement could come to a climax. Thus by the time politicians turned their batteries on the Chicago Edison or Commonwealth Electric companies, they invariably found that Insull had just cut his rates. Only once, in 1907, were rates cut by contract ordinance. This ordinance was vetoed by Mayor Dunne, a doctrinaire advocate of municipal ownership, whereupon Insull installed the rate cut anyway – with, of course, appropriate publicity.

This policy won Insull considerable favor among consumers, and a reputation among Chicago politicians as a man who was able to remain honest and yet play the political game with the most able professionals. To add to his favor with consumers Insull had in operation by 1906 a full-fledged public relations department (one of the first, as far as I know). Convinced that the vulnerability of utilities derived as much from a lack of popular understanding as it did from the public character of the business, Insull directed this department's activities into mass education. The techniques used, varied. A typical example was the free publication called *Electric City*, which the Edison and Commonwealth Electric companies distributed by the tens of thousands in stores all over Chicago. In *Electric City* lessons in the economics of electric supply

were sugar-coated with instructions on ways to save money in the use of electricity.

To transform the respect of professional politicians into dependable friendships, Insull employed considerably more subtle means. The complexity of his political relationships precludes adequate treatment of his techniques here, but some of his general rules may be summarized. First, one must respect the right of politicians to earn a living, and recognize that special rules, few of which the public is ever aware of, govern what he can do and what he cannot do. Second, politicians must be treated as not for sale. Insull never bribed anyone, not so much because of the ethics involved, but simply because he believed it was impractical – if the word ever got around among politicians that he had paid for a particular piece of legislation, he would have to pay for all legislation he sought, no matter how justified it was, no matter how much it was in the public interest. If it was true, as it was charged, that Yerkes had paid hundreds of thousands of dollars for legislation, it was because he violated this rule and thenceforth could not do otherwise. Instead, Insull sought merely to win the respect and the friendship of politicians. This involved regular campaign contributions to all candidates in all important elections, irrespective of party; numerous small favors, such as providing jobs – never important ones, and always with the reservation that the jobs must be justified from a business point of view – for the bosses of each ward to distribute; and, most important, respecting the rules under which politicians operated. This required that one never ask a politician (a) for anything that one was not legitimately entitled to, or (b) for anything that would embarrass him politically. Finally, one must expect and accept occasional public denunciations by one's political friends, whenever political expediency necessitated it. By faithful observance of these principles, Insull was almost always able to obtain whatever his companies in Chicago needed, no matter how the political climate varied.

During the years from 1898 to 1905, as other utility operators experienced less success in urban politics than did Insull, increasing numbers of them came to view expert, nonpolitical state regulatory commissions as a prospective sanctuary. But it was something new that spurred the industry to action: the specter of municipal ownership.

The movement for municipal ownership of electric utilities, born in the 1880's as a gleam in the eyes of eager electrical equipment

salesmen, and nourished in many places by gas companies who thought that municipal ownership would stifle the growth of electric lighting as a competitor, swelled to maturity in the decade after 1896. While Insull neither feared municipal ownership in Chicago nor really objected to it as a matter of principle, he saw in the industry's reaction to the movement an opportunity to gain support for regulation. With other men in the industry who advocated regulation, he set out to play upon and aggravate the industry's fear of municipal ownership, and to pose regulation as the only alternative to it. In 1904 the N.E.L.A. established a Committee on Municipal Ownership, which two years later was transformed into a dynamic new Committee on Public Policy. On the new committee were Insull, most of the men who had been on Insull's earlier Legislative Policy Committee, and a number of the young radicals who were to become the industry's giants: H. L. Doherty, John W. Lieb, Alex Dow, C. L. Edgar, and others.

The Public Policy Committee energetically studied, worked out the principles of, propagandized, and lobbied for the establishment of state regulatory commissions. Its 1907 report formed the cornerstone of the position of electric utilities on the subject. After remarking that the present antagonism toward utilities was "prompted in no slight degree by the agitation for a more strict control and regulation of the steam railroads," this report emphasized that "it should be impressed upon the officials controlling public-utility corporations that the public will is that these companies shall exist, not primarily to make dividends upon certain investments of capital, but as the most efficient means of supplying the public needs." If companies were unable to fulfill that obligation, and unless companies were soon under adequate regulation, public ownership would inevitably follow. Self preservation of the industry therefore necessitated the following: (1) that the N.E.L.A. "should favor properly constituted general supervision and regulation of the electric light industry." (2) That regulation should be vested in state commissions, whose members should be appointed in a manner "that will give them the greatest freedom from local and political influences." (3) That commissions should have power to control franchises, protect users against unreasonable or discriminatory rates, enforce a system of uniform accounting, and make public all pertinent information about the affairs of the regulated companies. The work of the committee was so successful that, while many in the industry still regarded regulation as merely the

lesser of two evils, and while support was not entirely unanimous, the 1907 report was accepted without modification and adopted as the working policy of the Association.

Meantime, in 1905 and 1906 the municipal ownership movement gained such increasing momentum that it began to appear that regulation actually was the only way to stop it. In city after city referendums favored municipal ownership, and in city after city advocates of municipal ownership were voted into office. In Chicago, a mayor was elected in 1905 on the strength of a campaign whose one main promise was immediate municipal ownership of the city's traction companies. Everywhere, transportation companies were the principal targets of the movement, it is true, but its impact was distinctly felt by electric central station companies, particularly in the Middle West. In 1896 there had been less than 400 municipally owned electric plants in the United States, and a decade later the number was more than 1,250. This rate of increase was more than half again as fast as the rate of increase of privately owned plants. In the years from 1902 to 1907, the rate of increase was more than twice as fast.

That the municipal ownership movement failed was due to a fortuitous circumstance, the panic of 1907. One of the movement's sources of strength had been the low cost of money and the extremely favorable market for municipal bonds that had followed the demise of the free silver movement. From 1897 to the spring of 1907 the yield on high-grade municipal bonds fluctuated between 3½ and 4 per cent, and in 1906 and 1907 even small municipalities began to find, through private placement, good markets for their bonds. But early in the summer of 1907 the bond market sagged, and at the end of June, when the City of New York failed dismally in an effort to sell a 4 per cent bond issue, the bond market snapped. New York City's financial crisis during the rest of the year, the receivership of one of the major traction companies in that city, and the financial debacle of October of that year combined to make the market for municipal bonds all but disappear. After about a year the market for high-grade municipals was restored and stabilized, but the popularity of the bonds of smaller cities was over, and not until 1923 did these bonds begin to recover any real favor among investors. Since the municipal ownership movement had been most successful in the small cities — more than 80 per cent of the municipally owned electric plants were in cities of less than 5,000 population — its life's blood had now been drained.

Advocates of regulation quickly seized the opportunity to redirect the energy of the derailed municipal ownership movement into support for regulation. That this was successfully accomplished was due in part to the work of Insull and the other members of the N.E.L.A.'s Public Policy Committee, and in part to the work of the National Civic Federation, another organization in which Insull had an important hand.

The National Civic Federation was the outgrowth of the Civic Federation, a Chicago organization – in which Insull was a leading figure – established in the 1890's to seek a rational solution of the more pressing local problems of the day. Representation on its board was distributed equally between businessmen, organized labor leaders, and politicians. The members of its executive committee included Insull and an assortment of persons ranging from labor leaders like President John Mitchell of the United Mine Workers, through reform politicians like Louis Brandeis, to a handful of progressive corporation presidents. The Federation was influential in bringing about a number of far-reaching reforms, and it provided the models for many state industrial relations, banking, unemployment compensation, and other commissions. After a widely publicized two-year study of municipal ownership, the Federation published a three-volume document on the subject in 1907, recommending as follows:

> First: Public utilities, whether in public or in private hands, are best conducted under a system of legalized and regulated monopoly.
>
> Second: Public utilities in which the sanitary motive largely enters should be operated by the public.
>
> Third: The success of municipal operation of public utilities depends upon the existence in the city of a high capacity for municipal government. (Professor John R. Commons put this a bit more pungently when he once wrote of a friend, "He did not want the state, as did Karl Marx, to take over the shops and factories, for he knew the Chicago politicians, but Marx did not.")
>
> Fourth: Franchise grants to private corporations should be terminable after a fixed period and meanwhile subject to purchase at a fair value.
>
> Fifth: Municipalities should have power to enter the field of municipal ownership upon popular vote under reasonable regulation.
>
> Sixth: Private companies operating public utilities should be subject to public regulation and examination under a system of uniform records and accounts and of full publicity.
>
> Seventh: The Committee takes no position on the question of the general expediency of either private or public ownership. The question must be solved by each municipality in the light of local conditions.

It will be observed that these recommendations were exactly

coincident with Insull's view, and, except for the lack of an unqualified endorsement of private ownership, with the views expressed in the 1907 N.E.L.A. report.

This report of the National Civic Federation provided the general outline on which most regulatory laws were based. In the case of the Wisconsin Railroad Commission – which itself became the model for many commissions that followed – the report was the direct source of the law. John R. Commons, the distinguished University of Wisconsin economist and labor historian who drafted the Wisconsin law, had served as one of the chief full-time investigators on the Federation's committee, and he drew up the Wisconsin law on principles derived from that experience.

During the 1907 state legislative sessions, the movement for regulatory commissions bore fruit in two other states, Massachusetts and New York. Each of the three pioneer commissions was of extraordinarily high caliber, and as a result the regulatory movement was off to an auspicious start. By 1909 most people, in and out of the industry, who were concerned with the subject had begun to look favorably on regulation. In that year President Meyer of the Wisconsin Railroad Commission asserted that the Wisconsin commission had taken utilities out of politics, had eliminated feuds between cities and the managers of public and private plants, had raised public morality through the removal of discrimination, had introduced new stability into the business, and was working a revolution in business management by its uniform system of accounting and its regulation of rates. This view was widely accepted, and the movement for state regulatory commissions spread rapidly. Within nine years after the establishment of the first three commissions, thirty more came into being. In those few places I know about from my own study, regulation was generally opposed by other utilities, but actively supported by all the leading electric utilities.

Illinois, however, despite Insull's efforts, was rather slow in creating a regulatory commission, and the commission it did establish was on a tenuous footing for some years. In 1911 the legislature created a joint committee to study "the relations of the public utilities of this State to the people thereof." After two years of investigation (during which, incidentally, Insull and his companies stood almost alone as advocates of a state commission; otherwise business, labor, and politicians of all stripes opposed it) the legislative committee recommended that Illinois create a commission, modeled as closely as possible after the one in Wisconsin. A bill to this end

was introduced and passed in the spring of 1913, and the Illinois Public Utility Commission went into operation on January 1, 1914. One vital feature of the Wisconsin law – that placing the operation of utilities under indeterminate franchises – was rejected by the Illinois legislature, and this rejection was a perpetual handicap to the effective working of the commission. Otherwise, however, the Illinois commission got off to a good start, and seemed destined to be a worthy emulation of its Wisconsin prototype.

But the Illinois commission had hardly begun to operate when a strong movement was launched to sack it and replace it with "Home Rule," i.e., municipal regulation, for the utilities in Chicago. This confusing episode, the climax of the regulatory movement in the state, provides a classic illustration of the old saw about politics and strange bedfellows. More to the point, the Home Rule movement demonstrates, more eloquently than any analysis ever could, why it was that Samuel Insull, who had fared better in Chicago politics than any other utility operater in the city's history, should want to have control of utilities taken both out of politics and out of Chicago.

In 1915 the most ardent opponents of utilities in Chicago, and the leading agitators for Home Rule, were three disparate groups: (1) The faction of the Democratic party controlled by ex-judge, ex-mayor, now governor Edward F. Dunne. Dunne, whose sudden rise from political obscurity in 1905 was due in large measure to his dramatic advocacy of immediate municipal ownership of Chicago transportation facilities, had a vested political interest in local control. (2) The faction of the Republican party headed by Alderman Charles Merriam, a professor at the University of Chicago. This group of doctrinaire intellectual reformers had opposed all efforts to establish a regulatory commission on the grounds that it removed control from "the people" and was therefore undemocratic – which it was, of course. (3) The few remaining politicians of the old "boodlers" school, who opposed state regulation on the straightforward grounds that it reduced opportunity for graft and more legitimate forms of profit from badgering utilities.

The newly elected mayor of Chicago was William Hale Thompson, alias Big Bill. For different reasons in each case, Big Bill was a devout enemy of each of the three leading anti-utility groups. Furthermore, Thompson's principal financial backer during his 12 years as mayor was, by Insull's own later statement, Samuel Insull. Too, Thompson's chief political advisor and closest henchman, after he

broke with Fred Lundin, was Corporation Counsel Samuel Ettleson, who was, in turn, the law partner of Daniel J. Schuyler, Insull's close personal friend and his "political" lawyer. Thompson, it is true, could denounce utility barons or advocate municipal ownership with as much oratorical flourish as the next fellow, but his oratory was rarely followed by deeds.

Hence when the ill-assorted anti-utility factions succeeded, toward the end of the 1915 session of the legislature, in having appointed a House committee to investigate the possibilities of Home Rule, Chicago utility men (who by this time, incidentally, were almost synonymous with Samuel Insull) were hardly able to get excited about it. The situation seemed safe enough: Thompson publicly supported Home Rule, but without much enthusiasm; the chairman of the House committee was Medill McCormick, one of Insull's closest friends; and the *Chicago Tribune*, the city's most powerful newspaper, was flatly opposed to Home Rule. Even when, in January, 1917, the committee issued a surprising report favorable to Home Rule, Insull saw no cause for alarm.

But then came a curious turn of the wheel. Soon after his election in 1915, Thompson had cast about for issues on which to increase his local popularity, as well as to use his office as a stepping stone to national politics. He decided that the ideal issue was the European war. At that time (late 1915) the war was unpopular all over the country, but particularly among progressives and particularly in the Middle West. Furthermore, in Chicago more than half the voters were foreign-born, and most of the foreign-born were central Europeans. Thompson's anti-interventionism served him well until the United States entered the war in 1917, whereupon he suddenly found himself on a precarious political limb. To divert attention from his embarrassing position, he joined his erstwhile enemies in the Home Rule movement, and by the end of 1917 he was the movement's principal leader. Remaining consistent in his opposition to the war, he vigorously denounced "war profiteers," always making a point of placing utilities at the head of the list, and asserting that Home Rule would have held them in check. As the squeeze of rampant inflation became tighter, and as every major electric, gas, and local transportation utility company in the country – except, interestingly enough, Insull's Commonwealth Edison Company – requested and received rate increases from the new regulatory commissions, such attacks gained in popularity. By the

middle of 1918 the number of supporters of the Home Rule movement in Chicago was enormous.

As soon as the war ended the curious coalition behind the movement disintegrated in a wave of personal feuds, but the movement itself hung on as an issue for three more years. After a fierce fight, in which Insull created the controversial Public Utility Information Committee and launched the customer ownership movement — each of which transformed the business world during the 1920's — Home Rule was finally rejected in a referendum in Chicago. But so unpopular had the Illinois Public Utility Commission become, and so committed were so many politicians, that in 1920 the legislature found it expedient to abolish the commission, with a great deal of sound and fury. Much more quietly, later in the session it established an agency called the Illinois Commerce Commission, which, by no coincidence, turned out to be precisely the same, in every important detail, as the old Public Utility Commission.

How much Insull had to do with this bit of political sleight-of-hand I do not know. It would not be surprising to learn that he was its principal engineer, for by now it had become customary with Insull to remake the world whenever it seemed necessary in order to make life in Chicago more comfortable — as he had done in fathering the regulatory movement.

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The Fabulous Billy Durant*

Durant has been described as "the most picturesque, spectacular, and aggressive figure in the chronicles of American automobiledom," but he was much more than this. His career is a classic study in the dual abilities, promotional and administrative, that created and nourished big business in America. Ultimate personal disaster grew out of Durant's failure to strike a balance between the two, yet his genius left imperishable marks, and his luster as the symbol of an era is untarnished.

It is just fifty years since William Crapo Durant founded General Motors. It is just about half that since Durant's automotive career crashed for the third and final time. In this period Billy Durant gave American business as spectacular a performance as it has ever witnessed and then disappeared into the mists of legend, so that the real Billy Durant is about as hard to find as the real Henry Ford. He was an organizing genius; he was a reckless speculator; he was the one man, not excluding Henry Ford, who really saw the future of the automobile; he was a super-salesman; he was a glib promoter – all these characteristics and more have been applied to Durant, and most have some degree of validity.

The founder of what is now the world's biggest manufacturing enterprise was born in Boston on December 8, 1861.[1] His parentage was Yankee, but the birth in Boston has to be written off as happenstance. Billy Durant's home town was Flint, Michigan, where his maternal grandfather, Henry H. Crapo, had gone into the lumber business with a fortune acquired initially in New Bedford whaling and became a prominent enough citizen to be elected governor of Michigan in 1864. So there was a marked strain of business ability in Durant's ancestry – more perhaps than Billy himself inherited, since grandfather Crapo had the foresight to see that the great days of whaling were ending and the judgment to

*The study on which this essay is based has been supported by the Sloan Research Fund of the School of Industrial Management at M.I.T., the Research Center in Entrepreneurial History at Harvard, and the Social Science Research Council.

[1] The fullest accounts of Durant's early life are in Margery Durant, *My Father* (New York, 1929), pp. 10 ff., and Carl Crow, *The City of Flint Grows Up* (New York, 1945), pp. 29, 31–32.

get out before it was too late. The father's side of the family has remained obscure. In the sole biography of William C. Durant, a work of filial piety by his daughter, the author devotes a great deal of space to Durant's mother but completely ignores his father. He appears to have been a drifter, addicted to stock speculation and liquor and unable to hold a regular job for any length of time.[2] Possibly he accounts for Billy's vigorous support of the Prohibition Amendment in later years; no other trace of his influence is visible.

Durant's business career began when, of his own volition, he left high school at the age of sixteen to go to work in his grandfather's lumber yard. He later was a drug clerk, sold real estate, bicycles, insurance, and cigars, and successfully managed the Flint Water Works when he was twenty. These were mere preliminaries. By the time Billy Durant had come of age, Flint, like other communities of the hardwood belt of southern Michigan and northern Indiana, was developing a flourishing industry in the manufacture of carriages and wagons (in an automobile age it is easy to forget that Studebaker was once the largest producer of horse-drawn vehicles in the world), and it was inevitable that a restless, boundlessly ambitious young man should go where the opportunities were brightest.

Destiny arrived in the unlikely form of a patented two-wheeled cart, claimed by its inventor to be balanced so that it had the riding qualities of a four-wheeled vehicle. When the inventor's shop burned down, Durant bought the patent rights for $50 and with $2,000, mostly borrowed, and a partner in a young hardware salesman named J. Dallas Dort, went into the business of vehicle manufacturing in 1885 under the name of the Flint Road Cart Company, changed a year later to the Durant-Dort Carriage Company.[3] Neither Durant nor Dort knew anything about manufacturing, but they did know a great deal about selling, so they contracted with a Flint carriage manufacturer to make their carts for $8.00 apiece while they busied themselves taking orders at $12.50 apiece. When they later acquired their own plant, they limited its operations to assembling. The parts were made by concerns specializing in wheels, bodies, axles, and all the other components down to whip-sockets. The same technique would later be commonplace in the manufacture of automobiles.

[2] This estimate of the senior Durant is based on letters in the Crapo Manuscripts in the Michigan Historical Collections. I am indebted for the information to Professor Martin D. Lewis of Baldwin-Wallace College, who is writing a life of Henry Crapo.

[3] Arthur Pound, *The Turning Wheel* (New York, 1934), pp. 78–79.

By the turn of the century the Durant-Dort Carriage Company reached a sales volume of 50,000 buggies a year, and William C. Durant had become one of the wealthiest citizens of Flint. He was still only forty, and he was hardly the type to feel that he had already achieved enough. Like all carriage builders, he must have been watching the coming of the motor vehicle to try to assess its possible impact on his own business. According to his daughter, as late as 1902 he reproved her for risking her life by riding in a Panhard owned by a schoolmate's family.[4]

If he was really serious, he changed his mind rapidly, because within two years he was in the automobile business as president and principal stockholder of the Buick Motor Company. He was the fourth investor to try to make a success of the organization. The first was David Dunbar Buick himself, who in 1899 turned from the manufacture of plumbing fixtures to experimentation with the gasoline engine.[5] In due course Buick and his associates worked out a promising engine design with the valves on top of the cylinder head instead of below it as in the L-head engine, but by this time Buick was in debt and had to have help. He succeeded in enlisting the aid of Benjamin Briscoe, a Detroit sheet metal manufacturer whose automotive career for a while seemed likely to match Durant's. Briscoe and his brother put close to $100,000 into Buick's venture, but the results were so discouraging – a total production of six cars in 1903 – that they withdrew to join forces with Jonathan D. Maxwell in what seemed to be a more promising prospect.

The Briscoe interest in Buick was bought by James H. Whiting, owner of the Flint Wagon Works, whose principal achievement was to move the company from Detroit to Flint in the hope that he could make Buick cars in his wagon factory.[6] It was a step which had far-reaching consequences, because when Whiting in his turn became discouraged and decided late in 1904 to sell out (only 16 Buicks were made in 1904), it was natural for him to turn to his fellow townsman William C. Durant.

So Billy Durant was on his way. Whatever misgivings he might have had earlier about the horseless carriage, he had none now; quite to the contrary, no man, except perhaps Henry Ford, had such a limitless faith in the future of the automobile. Occasionally his exuberance was a liability. Cautious financiers, for example,

[4] Durant, *My Father*, p. 9.

[5] There is a sketch of Buick's career in the *National Cyclopaedia of American Biography* (New York, 1948), Vol. 34, pp. 368–369.

[6] Crow, *op. cit.*, p. 46.

were not attracted to a man who could make extravagant statements about a production of half-a-million motor vehicles a year in the United States – this at the time (1908) when his own Buick company led the American field with an output of 8,500 cars for the year.

The Buick achievement might well have suggested that perhaps Durant knew what he was talking about. Whether by good fortune or good judgment, he entered the automobile industry under conditions peculiarly favorable to himself. He was no technician, but he did not need to be. The Buick was well engineered and continued to be after Buick himself left the company in 1906. All it needed was vigorous promotion, both in production and selling, and this Durant could provide superlatively well. He was a small man, which accounts for the name "Billy" sticking to him throughout his life, but his associates at every stage of his career testify to his incredible energy. He could and did work at any hour of the day or night when the impulse seized him. Frederick L. Smith, R. E. Olds' successor as head of the Olds Motor Works, tells how in 1908 Durant arrived in Lansing in the middle of the night, raced through the factory in fifteen minutes, and spent the rest of the night discussing with sleepy Oldsmobile officials the sale of their company to General Motors.[7]

The success of the Buick Motor Company gave Durant the foundation he needed to build on, and he was perfectly right in his assumption that building was needed. The American automobile industry of those days was a myriad of small-scale producers who came and went in bewildering profusion – over 2,900 different makes of motor vehicle can be identified as having appeared on the American market at one time or another. Most of these producers were woefully short of cash and lived from hand to mouth by buying from their suppliers on credit and selling to their dealers for cash. One bad year ordinarily meant ruin.

Durant's remedy for this situation was combination – put together a big organization, with a variety of models and its own parts factories, so that it would not only have the resources to meet the growing demand for automobiles but by offering several kinds of car would have some insurance against shifts in public preference. He made his first move in cooperation with Benjamin Briscoe, whose partnership with Maxwell had come out very well and who shared Durant's enthusiasm for the future of the automobile. Some-

[7] F. L. Smith, *Motoring Down a Quarter of a Century* (Detroit, 1928), p. 37.

time in 1908 they tried to work out a merger of Buick, Maxwell-Briscoe, Ford, and Reo, the four leading producers, but they failed because Henry Ford, while willing to put a price of $3,000,000 on his company, wanted to be paid in cash, whereupon R. E. Olds (Reo) made the same demand, and $6,000,000 was more cash than the partners could manage.[8]

Durant and Briscoe then went their separate ways. Briscoe waited a little before trying again[9] but it was not in Billy Durant's nature to wait, or to be deterred by a setback to his plans. He went right ahead to organize the General Motors Company, the charter being issued by the State of New Jersey on September 16, 1908. The initial capitalization was $2,000, quickly raised to $60,000,000 as Durant poured out stock to add companies to his collection. Within the next two years General Motors acquired control of ten passenger car producers (Buick, Cadillac, Oldsmobile, Oakland, Carter, Elmore, Ewing, Marquette, Ranier, Welch), two truck manufacturers (Rapid, Reliance), and an assortment of parts makers, including the Champion Ignition Company, which Durant himself had financed to produce Albert Champion's improved porcelain spark plug.[10]

With one exception these companies were bought with a minimum of cash, the Olds Motor Works, for example, being purchased for $3,000,000 of which only $17,000 was in cash.[11] The exception was Cadillac, where shrewd old Henry Leland held out for a cash payment of $4,400,000[12] and may thereby have cost Durant his second chance to add the Ford Motor Company to his list. There was apparently a renewal of negotiations between Ford and Durant, at which Ford is supposed to have quoted a price of $8,000,000, still in cash, and this figure was simply beyond Durant's reach. The details of this incident are weakly authenticated, and, as Allan Nevins points out, it is quite unlikely that with the Model T now appearing on the market Henry Ford was seriously interested in selling his company.[13]

So far Billy Durant's business career had been a remarkably suc-

[8] Federal Trade Commission, *Report on the Motor Vehicle Industry* (Washington, 1939), pp. 421–422.

[9] He organized the United States Motors Corporation in 1910. It collapsed two years later and was reorganized as the Maxwell Motor Car Company, later to be the nucleus of the Chrysler Corporation.

[10] Alfred P. Sloan, Jr., in collaboration with Boyden Sparks, *Adventures of a White Collar Man* (New York, 1941), p. 108.

[11] Durant, *My Father*, p. 119.

[12] L. P. Seltzer, *Financial History of the Automobile Industry* (Boston, 1928), p. 155.

[13] Allan Nevins, with F. T. Hill, *Ford. The Times, the Man, the Company* (New York, 1954), pp. 412–413.

cessful combination of audacity and good judgment, but with the launching of General Motors his ambition began to carry him away. General Motors was a conglomeration of companies acquired because they were available rather than because they fitted into any coherent pattern. Only Buick and Cadillac were money-makers. Oldsmobile had a great name but not much else, Oakland was a promising newcomer, and the others have to be classified as odds and ends, some of them sheer gambles on Durant's part. He bought the Carter Car Company because it had a patented friction drive and the Elmore because it had a two-cycle engine, and either might turn out to be on the route that automotive development would take.[14] It can be argued, of course, that in 1909 the technical future of the gasoline automobile was far from clear, and Billy Durant's guess was as good as anyone's. On the other hand, since both the friction drive and the two-cycle engine were conspicuous exceptions to prevailing trends in automotive design, Durant would have been wiser to wait and see before he committed his already inadequate resources. As it was, he lost his investment in both companies — $700,000. He lost ten times as much in a still worse blunder, the purchase of an organization called the Heany Lamp Company, which had what proved to be a fraudulent patent on an incandescent light.

Between over-rapid expansion and unsound acquisitions, General Motors ran into trouble early in its career. In 1910 it was faced with insolvency; even Buick, the keystone of the structure, was $7,000,000 in debt because Durant had been neglecting its affairs while he was working on his mergers. This situation had the incidental effect of pulling Charles W. Nash into automobile manufacturing. Nash was general manager of the Durant-Dort Carriage Company, whose principal business by this time was making bodies for Buick. When he found himself with a stack of unpaid bills on his hands, Nash in desperation proposed to Durant that he himself take charge of Buick and straighten out its affairs, and to this Durant agreed.[15]

General Motors was saved by the intervention of a banking syndicate headed by James J. Storrow of Lee, Higginson and Company. Their first impulse was to scrap General Motors and concentrate on salvaging Buick, but they were persuaded to try to keep the whole structure by Henry M. Leland and his son Wilfred, representing

[14] F. T. C., *Report*, pp. 450–451.

[15] The story of the refinancing of General Motors in 1910 is told in Seltzer, *op. cit.*, pp. 163–165. The information on Nash was given to me by Mr. David F. Edwards, Chairman of the Board of Saco-Lowell Shops, who was one of Storrow's aides at this time.

the one healthy automobile producer in the combination.[16] The terms were rigorous: a $15,000,000 loan at 6 per cent, with the syndicate taking a commission of $2,500,000 and a bonus of $6,000,000 in General Motors stock, and General Motors to be run by a bankers' trust for five years. Yet the banking syndicate has been unduly criticized on this account. It was taking over an organization whose affairs were in chaos, and it had no assurance that its financial help would prevent a General Motors collapse. Most investors felt the same way; the $6,000,000 of stock had to be used as a reward to purchasers of the trust debentures.[17]

It was inevitably one of the conditions that Durant should have to withdraw from active management, although he was still an important stockholder, and he remained on the board of directors. The presidency of General Motors went temporarily to Storrow, then to a Detroit businessman named Thomas Neal, and later to Nash. If, however, anyone believed that the automobile industry had seen the last of William C. Durant, he was quickly disabused. Billy simply went looking for new fields to conquer, specifically the mass market which Henry Ford was opening up.

Within a year of his ousting from General Motors, Durant had two new companies going: the Little Motor Car Company in Flint, named for his associate William H. Little, a former Buick executive, and the Chevrolet Motor Car Company in Detroit, formed to build a light car designed by Louis Chevrolet, a French-Swiss mechanic who had been a racing driver for Buick.[18] Subsequently he added a Republic Motor Car Company, which had initially been established to take over the former Maxwell-Briscoe factory in Tarrytown, New York, but which Durant converted into a holding company capitalized at $65,000,000.

Apparently Billy was on another promotional spree, but all of a sudden he reversed his course. The Republic and Little companies were eradicated in 1913, all manufacturing operations were concentrated in Flint under the Chevrolet name, and the Tarrytown factory became an assembly plant, largely for the purpose of attracting the attention of New York financial circles.[19] There are two motives behind this somewhat uncharacteristic consolidation. First,

[16] The intervention of the Lelands is mentioned by Seltzer. I am indebted to Mrs. Wilfred C. Leland for a detailed account of the contribution of her husband and her father-in-law to the saving of General Motors.

[17] This information was given to me by Mr. David H. Howie, now of the Fiduciary Trust Company of Boston, who became Storrow's secretary in 1911.

[18] Durant, *My Father*, p. 145; *The Automobile*, Vol. 34, No. 8 (Feb. 26, 1916), p. 386.

[19] Seltzer, p. 173; *Horseless Age*, Vol. 31, No. 25 (June 18, 1913), p. 1,094.

and most direct, the Chevrolet was doing very well. It was far from offering a serious challenge to Ford, but it was climbing to a sales volume of 15,000 a year and net profits of $1,300,000.[20] On the other hand, a vehicle known as the "Little" car had a serious handicap from the salesman's point of view, and the name "Republic" was already in use by a truck manufacturer. Second, Durant was stalking bigger game, for which he needed financial backing, and it would not do to give the impression of reckless expansion of the Chevrolet-Little enterprise.

His object was nothing less than recovery of his control of General Motors, and to this end he was quietly buying General Motors stock, unwittingly aided by the cautious policies of the bankers' regime. Storrow and Nash were magnificent administrators who concentrated on establishing order and solvency, and on paying off the $15,000,000 loan within the period of the trust agreement. This they accomplished, but to do so they paid no common-stock dividends, so that Durant found willing sellers. Even so, the task was beyond his own resources, but he succeeded in enlisting the powerful assistance of Pierre S. duPont and John J. Raskob, the treasurer of the duPont company who would later be Al Smith's campaign manager.

The climax of Durant's drive was the organization of the Chevrolet Motor Company of Delaware in October, 1915, as a holding company for all Chevrolet activities. Its announced purpose was to put into quantity production a Chevrolet called the "490," whose selling price was to be $490.[21] It was scarcely coincidence, however, that this event occurred only two months before the bankers' trust expired or that Durant immediately raised the corporation's capital to $80,000,000 and began to offer to exchange five shares of Chevrolet for one of General Motors. When the trust was terminated and a new board of directors was chosen, the contesting forces were about evenly matched, and the election of P. S. duPont as chairman was regarded as a compromise. By the following spring, when the regular annual meeting of the General Motors Company was held, Durant was able to produce bale upon bale of stock certificates and announce that he controlled the company. To be strictly accurate, the Chevrolet Motor Company controlled General Motors, a quite unique example of the tail wagging the dog.

Durant's victory naturally produced some reshuffling in General

[20] Durant, *op. cit.*, p. 178.
[21] *The Automobile*, Vol. 33, No. 15 (Oct. 7, 1915), p. 674.

Motors. Storrow and Nash left, subsequently to purchase and reorganize the T. L. Jeffery Company of Kenosha, Wisconsin, manufacturer of the original Rambler. Walter Chrysler, whom Storrow had brought into General Motors, almost went with them, but Durant persuaded him to stay on as president of Buick at a salary of $500,000 a year – this only five years after Chrysler had gone to work for Nash for $6,000.[22]

As if this coup was not sufficiently impressive, the amazing Billy also found time to put together a combination of parts producers known as United Motors. It was a far more important move than even Durant could have realized when he made it, not so much because of the properties involved as because of the men who came with them. The Hyatt Roller Bearing Company, which was the largest single participant in this merger, contributed Alfred P. Sloan, Jr., who became president of United Motors, and the acquisition of the Dayton Engineering Laboratories Company brought Charles F. Kettering into the General Motors orbit.[23] Both were taken officially into the General Motors family in 1918, when the anomalous organizational situation created by Chevrolet's purchase of General Motors was tidied up. A new General Motors Corporation was chartered in Delaware to take control of both Chevrolet and the General Motors Company, and it absorbed United Motors as well.

So the second Durant regime at General Motors was on its way. It began under somewhat brighter auspices than the first. With duPont money in the company, Billy was free of the shortage of working capital which had caused his earlier downfall, and he inherited from his predecessors a much more efficient organization than he had turned over to them. They had cut the passenger car models to four (Buick, Cadillac, Oakland, and Oldsmobile), to which Chevrolet was now of course added, the truck firms had been consolidated into one, and the foundation for systematic research and testing had been laid – all this an achievement for which Storrow and Nash have never received proper credit.

All Durant needed to make a brilliant success of his return to General Motors was to control his own exuberant impulses, but this he could not or would not do. The American entry into the First World War slowed down his expansionist tendencies temporarily, but with the arrival of the postwar boom in 1919 he was off. Some

[22] F. T. C., *Report on the Motor Vehicle Industry*, p. 693; Walter Chrysler (in collaboration with Boyden Sparks), *Life of an American Workman* (New York, 1937), pp. 123–124.

[23] Sloan, *Adventures of a White Collar Man*, pp. 99–100.

of his moves were well calculated – the acquisition of Fisher Body and the creation of the General Motors Acceptance Corporation. One hunch paid off richly. Against the advice of his associates, Durant put $100,000 of his own money into a company which was struggling to put an electric refrigerator on the market. To those who asked what connection there was between automobiles and refrigerators Billy airily pointed out that both were basically cases containing motors, and when Frigidaire was a recognized success, he sold his holdings to General Motors for what he had paid for them.[24] On the other hand, there were performances reminiscent of the earlier debacle. Two new passenger cars, Sheridan and Scripps-Booth, were added for no obvious reason, and there was an ambitious venture into farm machinery through the Samson Tractor Company and the Janesville Machine Company of Janesville, Wisconsin. This step was understandable enough. Henry Ford had gone into tractor manufacturing successfully, and other automobile firms were eyeing the field. Walter Chrysler, however, bluntly warned Durant to leave the farm machinery business to the concerns that were equipped for it and was proved right at a cost to General Motors of $30,000,000.[25]

This rejection of Chrysler's advice points up another of Durant's major weaknesses. His record with his carriage company and with Buick displays unquestionable managerial ability; when he concentrated his attention on the affairs of a single company he was a good administrator. He failed to realize, however, that a complex structure like General Motors was too much for one man to handle, even a Billy Durant, and he compounded his error by letting himself get diverted into a variety of promotional schemes and stock-market operations. The result was that he neither exercised nor delegated authority effectively. He provided only spasmodic and haphazard coordination among the component parts of General Motors, and he subjected his subordinates to capricious and unpredictable interference.

The deterioration of his relations with his ablest lieutenants tells an eloquent story. It was proper, if unwise, for Durant to ignore Walter Chrysler's advice on his tractor venture, because this was a matter of general corporation policy. With Buick, however, either Chrysler was in charge or he wasn't, and this elementary principle of management escaped Durant completely. He moved people in

[24] *Ibid.*, pp. 106-110.
[25] Chrysler, *op. cit.*, p. 160.

and out of the Buick organization without bothering to consult Chrysler, and he had a habit, particularly irritating to a man of Chrysler's volatile temperament, of summoning executives to Detroit on short notice and then leaving them to cool their heels because his attention had been diverted to something else.

The open break between the two men can be dated from a meeting of the Chamber of Commerce of Flint late in 1919 at which Chrysler was present. Durant, in a typical grandiose gesture, sent a telegram announcing that General Motors was going to spend $6,000,000 to build a factory in Flint for making Buick frames. When Durant's erstwhile partner, J. Dallas Dort, read the message, the assemblage went wild with enthusiasm – all except Chrysler, who sat glumly silent, contemplating the negotiations he was then conducting with a Milwaukee firm for frames. On being asked to speak, he pointed out bluntly that housing and labor were both acutely scarce in Flint, declared categorically that there would be no frame plant erected in Flint while he was president of Buick, and sat down.[26]

Durant gave way on this issue without doing anything to resolve the basic problem. Then came the row over tractor policy, and Chrysler had had enough. As he put it, Buick was responsible for half of General Motors' revenue, but Durant was spending money faster than Buick could earn it.[27] So Chrysler quit.

Alfred P. Sloan had no open break with Durant. Nevertheless, he became increasingly uneasy at the chaotic management of General Motors, and he tried to remedy matters by drafting a plan for administrative reorganization – essentially the plan which he himself would later put into operation.[28] Durant approved, but he was too busy with his own affairs to do anything more about it, so Sloan was left with his misgivings.

Then came the 1920 depression – short, sharp, devastating. The market for automobiles vanished almost overnight, leaving most of the manufacturers with swollen inventories and overstrained finances. For a while they tried to ride out the storm without cutting prices, but when Henry Ford cut his, the rest of the industry perforce had to follow. Durant was the last to give way. He was sure the panic would be short-lived (he was as a matter of fact quite right; it was just not short enough to save him). Furthermore, he was deeply involved in supporting General Motors' stock on the

[26] *Ibid.*, pp. 157–158.
[27] *Ibid.*, p. 161.
[28] Sloan, *op. cit.*, p. 106.

market and he was afraid of the effect of a price cut. Some of his involvement was to his credit, in that he was trying to protect friends who had bought General Motors on his advice, but this was far from being the whole story of his market operations.

As the crisis intensified, so did the concern of Durant's associates. Sloan became so discouraged that he finally took a month's leave of absence to go to Europe and think things over, and he came back at the end of 1920 with his mind made up to follow Chrysler out of General Motors.[29] By then, however, it was no longer necessary for Sloan to leave; Durant had gone first. By December of 1920 a steadily falling market had brought him to the brink of catastrophe – perhaps over it, because his finances were in incredible confusion. He had accounts with something like seventy brokerage houses scattered over the country, and he had no idea how deeply in debt he was.

At this point the duPonts intervened. Durant himself was expendable, but a Durant crash in the jittery state of the economy would seriously jeopardize General Motors. So a duPont-Morgan syndicate rescued Durant by paying him some $23,000,000 for his 2,500,000 shares of General Motors – and requiring his resignation as part of the bargain.[30]

So Billy was thrown out of General Motors for the second and last time. It is possible to feel a good deal of sympathy for him. He need not have become so badly entangled if he had not felt himself obligated to his friends, and if he had been able to hang on just a little longer the recovery of business would have straightened out his finances. There is also evidence that some of the overexpansion of General Motors was urged on him by others. His daughter, for example, claims that he wanted to defer construction of the General Motors Building in Detroit.[31] Nevertheless, it is perfectly clear that for the long-term good of General Motors Durant had to go. The administrative anarchy in which he functioned was not to be cured by an upswing of the stock market. The most devastating commentary on Durant's management is the condition of the Chevrolet company at the time of his departure. Here was a car which had made so brilliant a start in the moderate-priced field as to enable its sponsor to ride back into control of General Motors; yet by 1921 the Chevrolet division was in such bad shape that its aban-

[29] *Ibid.*, p. 119.
[30] Durant, *My Father*, p. 271; *Automotive Industries*, Vol. 43, No. 22 (Nov. 25, 1920), p. 1,097.
[31] Durant, *op. cit.*, p. 253.

donment was recommended to Durant's successor, Pierre duPont, and it was saved only at the urgent insistence of Alfred P. Sloan.[32]

By any ordinary standards Durant's career should have been finished. He was sixty years old, he had twice failed as head of General Motors, and on the second occasion he had been discarded by the duPonts. Billy, however, did not live by ordinary standards. In a matter of weeks he had collected $7,000,000 from a group of 67 friends and with the money launched a new enterprise, Durant Motors.

The new company began operations in a factory in Long Island City bought from the Goodyear Tire and Rubber Company, which was going through receivership as another victim of the 1920 depression. This plant was to make a four-cylinder car, the Durant Four, to be sold for less than $1,000.[33] Then, when General Motors discarded the Sheridan, Durant took over the Sheridan factory in Muncie, Indiana, and converted its product into the Durant Six. He bought or built other facilities in Flint (he never lost his affection for his home town), Lansing, and Oakland, California, and added a luxury model to his line by acquiring the Locomobile Company of Bridgeport, Connecticut.[34]

Durant still held firmly to his basic philosophy of blanketing the automobile market, and a year after the founding of Durant Motors he added a subsidiary, Star Motors, to compete directly with Ford.[35] At the same time he outbid both Studebaker and Walter Chrysler for a large new factory in Elizabeth, New Jersey, plus designs for a medium-priced car. The plant had originally been built by Duesenberg Motors to make aircraft engines during the First World War and had passed into the hands of the Willys Corporation. After the war it was expanded for automobile manufacturing, but before it got into production the Willys Corporation was caught in the 1920 panic. Chrysler came into the picture when he was put in charge of reorganizing the Willys empire and put three brilliant engineers (who would later be key figures in the Chrysler Corporation) to work on a design for an improved car to be built at Elizabeth. When, however, the Willys Corporation could not be kept out of receivership, the plant had to be sold. Chrysler bid for it in behalf of the Maxwell Motor Car Company, which he was also re-

[32] Sloan, *op. cit.*, p. 139.
[33] *Automotive Industries*, Vol. 44, No. 13 (March 31, 1921), p. 726.
[34] *Automotive Industries*, Vol. 44, No. 19 (May 26, 1921), p. 1,136; Vol. 45, No. 6 (Aug. 11, 1921), p. 266; Vol. 47, No. 4 (July 27, 1922), p. 186.
[35] *Automotive Industries*, Vol. 46, No. 15 (April 13, 1922), p. 833.

organizing (and eventually transformed into the Chrysler Corporation), but neither he nor Erskine of Studebaker was willing to top Durant's bid of $5,250,000.[36] So the car that might have become the first Chrysler emerged as the Flint.

Durant added some parts makers to his collection and organized a Durant Motors Acceptance Corporation for the dual purpose of financing sales and helping dealers to store cars over the winter for prompt spring delivery. He also established a bank, the Liberty Bank in New York.[37]

Durant Motors was therefore an impressive-looking structure on the surface. Underneath, however, there were glaring weaknesses. The Locomobile Company had seen its best days and was already bankrupt when Durant bought it. The Durant and Flint models were good cars but with no exceptional qualities, and the Star, while reasonably popular, never competed with Ford in either price or volume. The Liberty Bank was an ominous sign that drastic measures had to be taken to bolster the company's cash position and that Durant himself did not have access to the regular money markets.

Even while the great business boom of the 1920's was on its way up Durant was fighting a losing battle. The Flint properties of Durant Motors had to be sold to General Motors in 1926 and the Long Island City factory to Ford a year later.[38] Evidently Durant Motors was overextended, as it should have been after being put together at breathless speed with only $7,000,000 in cash. For Durant the remedy for a situation like this was the hair-of-the-dog technique. He began to talk of a new combine to be called Consolidated Motors, which would be built around the Star just as General Motors had been built upon Buick. But the magic of the Durant touch and the Durant name had faded; Consolidated Motors never got started. If rumor in automotive circles was accurate in listing Hupp, Chandler, Peerless, Moon, Gardner, and Jordan as the companies to be joined to the Star,[39] the combination was not a particularly hopeful prospect anyway.

The shrinkage of Durant Motors continued inexorably. The Locomobile Company stopped production early in 1929, and the Eliza-

[36] *Automotive Industries*, Vol. 46, No. 23 (June 8, 1922), p. 1,344; Chrysler, *American Workman*, p. 180.

[37] *Automotive Industries*, Vol. 48, No. 11 (March 15, 1923), p. 645; Vol. 49, No. 14 (Oct. 4, 1923), p. 709.

[38] *Automotive Industries*, Vol. 55, No. 3 (July 15, 1926), p. 111; Vol. 56, No. 13 (April 2, 1927), p. 524.

[39] *Motor Age*, Vol. 51, No. 15 (April 14, 1927), p. 28; Vol. 52, No. 22 (Dec. 1, 1927), p. 10.

beth plant was closed in August. Yet Billy struggled on with pathetic determination; the one thing he never lost was his indomitable spirit. When he came under criticism from stockholders, he undertook to restore confidence by a characteristically flamboyant move, announcing that he was retiring from active management for reasons of health and turning over the company to a group of executives who stood "head and shoulders above any others in the automobile industry." These paragons proved in practice to be a group of former Dodge executives who had been displaced by the Chrysler-Dodge merger, and they lasted just over a year.[40]

The coming of the Great Depression finished Durant Motors, as it did most of the smaller producers in the automobile industry. Durant, however, still had to be knocked out before he would concede defeat. He made an arrangement with the French Mathis company to manufacture Mathis cars at Lansing, predicting with his unfailing optimism that the day of the small car was at hand because of parking problems and maintenance costs.[41] Time may show that there was nothing wrong with the prediction except that it was premature, but in the early '30's few people were buying automobiles of any size, and Durant Motors was finally liquidated in 1933. Three years later Durant himself, then seventy-five years of age, filed a petition in bankruptcy, listing liabilities of $914,000 and assets (his clothes) of $250.[42]

The story should end here in the best pattern of classical tragedy, with the hero plunged from the height of prosperity into irretrievable ruin. It could not end because Billy was still alive and to him the word "irretrievable" had no meaning. Cato starting to learn Greek at eighty had nothing on William C. Durant beginning a new business career at seventy-five as operator of a supermarket in Asbury Park, New Jersey.[43] Four years later he went home to Flint to open a bowling alley, with every intention of making it the nucleus of a chain of bowling alleys through the Middle West. By that time, however, Billy's body could no longer keep up with his spirit. His health failed, and he was an invalid for most of his last few years.

He died in 1947, in the same year as Henry Ford. They were almost exact contemporaries, Durant's birth preceding Ford's by a year and a half, and their automotive careers had some strikingly

[40] *Automotive Industries*, Vol. 60, No. 2 (Jan. 12, 1929), p. 62; Vol. 60, No. 3, p. 102.

[41] *Automotive Industries*, Vol. 63, No. 8 (Aug. 23, 1930), p. 271.

[42] R. M. Cleveland and S. T. Williamson, *The Road Is Yours* (New York, 1951).

[43] *Automobile Trade Journal*, Vol. 41, No. 11 (Oct. 1936), p. 29.

parallel features. The Ford Motor Company was established in 1903; Durant took control of Buick in 1904. Each made a unique and vital contribution to the American automobile industry in 1908, Durant by creating General Motors and Ford by introducing the Model T. There was even a possibility then that Ford would be drawn into the Durant orbit. Durant's coup with Chevrolet coincided closely with Ford's moving assembly line and five-dollar day.

There the parallel ends, and we finally have Durant dying in obscure poverty while Ford left a tremendous fortune behind. It is far from certain, however, that Durant is the one to be pitied. The closing phase of Henry Ford's career is a depressing story. Billy, despite his final disaster, left behind him the memory of a vivid, intensely human, and thoroughly likeable personality. The testimony of those who knew him and worked with him is astonishingly unanimous on this point. Regardless of how vigorously they might have differed with him on business policies and methods, they all speak with warm affection of the man himself. They also agree on his honesty of purpose – that he was genuinely devoted to the companies he headed and never tried to enrich himself at the expense of his stockholders. Corroboration for this judgment can be found in the fact that Durant's failures were clear of scandal.

He had definite qualities of greatness – vision, daring, and unbelievable energy. These coupled with his short stature and boundless ambition inevitably resulted in the term "Napoleonic," a comparison rounded out by his catastrophic fall. His concept of the great automotive corporation offering a vehicle for every price and purpose was perfectly sound; the Big Three of American automobile manufacturing are organized on precisely this pattern today. Had the execution matched the concept, William C. Durant might well overshadow Henry Ford in the history of the American automobile industry.

If we try to analyze the reasons for his failure, his lack of technical competence can be dismissed as contributory but minor. He had an enthusiasm for technical novelties which might have a big potential market, and sometimes his insights were brilliant – witness his buggy, the Buick and the Chevrolet, and the Frigidaire. He made some bad guesses also, but on balance he came out about even. His greatest weakness in the technological area was his disregard of it – his assurance that he could always play his hunches, and his unawareness of the desirability of a systematic program for technological experimentation and development, with the re-

sult that operations such as Buick and Chevrolet made excellent starts under his management and then faltered until a real organizer took over.

Here, in fact, is the clue to Billy's failure. As his ambitions enlarged, he allowed himself to become absorbed in the manipulation of corporate structures and security issues to the exclusion of considerations of internal economy. His career as a carriage builder and his introduction to motor vehicle manufacturing provide ample evidence that he could be a good administrator when he chose. After the launching of General Motors, however, he became increasingly obsessed with paper values. Had he been given to reflection, which he was not, he might have looked back and realized that his own success rested on superiority of design and efficiency of production rather than on corporate or financial legerdemain. It was manifestly his fate to rise high and fall hard. Yet he did found General Motors, and the way to remember him is in the words of his one-time associate, Frederick L. Smith:[44]

> It would be a poorly posted analyst who failed to list W. C. Durant as the most picturesque, spectacular, and aggressive figure in the chronicles of American automobiledom. He certainly made some capital mistakes, a fact as to which we often violently disagreed, but the man who makes no mistakes rarely makes anything at all on a large scale.

[44] Smith, *Motoring Down a Quarter of a Century*, p. 38.

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Success and Failure Factors

American Merchants in Foreign Trade in the Eighteenth and Early Nineteenth Centuries*

No definitive comparison of factors contributing to success and failure in business is possible. Yet a look at some of those factors, operative in a number of similar circumstances, helps sharpen the customary vague generalizations. An examination of the elements of prudence, diligence, housekeeping habits, intelligence, foresight, use of agents, degree of control, and teamwork suggests that in commerce of the period luck was probably of less influence than commonly supposed. A by-product of this broad inquiry is a specific and highly illuminating comparative picture of mercantile business practice.

Why one man succeeds in business and another man fails is a difficult problem at any time. The difficulty lies not so much in our ignorance of the general factors involved as in tracing their complex interaction. Intelligence and good luck, for example, are certainly fundamental: but can we say with confidence where the one ends and the other begins? What of other elements of success, such as prudence, persistency in will, good housekeeping habits, and the aids of the business community? Can we be sure of the part played by each of these factors in particular business decisions? If so, are sufficient case histories of businessmen available to warrant general conclusions?

I believe the answers to these questions are very largely negative. For one thing, far more records of success than of failure have survived the attrition of history. Even the success stories have their limitations. The bookkeeping records of foreign traders, for example, do not as a rule permit correlation between a specific investment decision and a specific gain or loss, for merchants did not

*I wish to express my thanks to Professor Arthur H. Cole of Harvard whose searching questions about merchants led me, at his suggestion, to undertake this article. I also wish to thank Professor Frederic C. Lane of Johns Hopkins for his helpful comments upon a first draft of it. I, of course, assume sole responsibility for the conclusions reached.

usually compute the results of particular shipments.[1] We know well, however, that some men made only a living, while others made fortunes. Still others, such as the New York merchant Victor duPont, went bankrupt.[2] Most of the Jacksons and Lees of Massachusetts "at some time or other [in the eighteenth century] either failed in business or came to the very brink of such a disaster."[3] In March, 1803, Robert Oliver, merchant of Baltimore, noted that "upwards of 100 failures have . . . taken place in this City in the last three years. . . ."[4] An increasing number of studies of American merchants illuminate some of the areas of difference between them which have led to these varying results. Many of the studies also show that the merchants themselves had definite ideas concerning the qualities making for success.

Let us first consider the factor of prudence. It is undeniable that the same man sometimes plunges and sometimes reins in. On the other hand, some men appear temperamentally disposed to caution, others to an easier trust that things will come right. James B. Hedges clearly sets forth the difference between the merchant John Brown of Providence and his brothers, Moses and Nicholas. John was eager to reinvest each year's profits in an expanding business. But Nicholas, "cautious, [and] conservative by nature," probably approved the terms in which Moses rejected the plan: "'who Ever plays any Game the Rubbers, or plays the last for the Value of the whole gain of the Preceding many, will Sooner or Later Loose the Whole at one Throw.'"[5] Miss Virginia D. Harrington has written that the proportion between speculative and revenue-producing holdings of real estate in the hands of the colonial merchants of New York depended partly "on the temper of the individual."[6] Miss Elva Tooker concludes of the Philadelphia merchant Nathan Trotter: "Nothing is clearer throughout Trotter's business career than his prudence, caution, and moderation."[7] Prudence lay near

[1] Richard Pares, *Yankees and Creoles* (Cambridge, 1956), p. 139. Pares finds this "strange." But except for the necessity of dividing profits with joint investors no such calculations were required: merchants based their investment decisions not upon records of past gain or loss but upon fresh market information; S. Bruchey, *Robert Oliver, Merchant of Baltimore, 1783–1819* (Baltimore, 1956), pp. 135–141.

[2] In 1805. For this and other information about the duPonts I wish to express my gratitude to Dr. Norman B. Wilkinson, Research Associate of the Eleutherian Mills-Hagley Foundation in Wilmington, Delaware.

[3] Kenneth W. Porter, *The Jacksons and the Lees* (Cambridge, 1937), Vol. 1, p. 4.

[4] Oliver Record Book (hereafter ORB) 5, pp. 42–44, to P. Godeffroy Sons & Co., et al., March 22, 1803 (Maryland Historical Society – hereafter Md. Hist. Soc.).

[5] James B. Hedges, *The Browns of Providence Plantations* (Cambridge, 1952), p. 16.

[6] Virginia D. Harrington, *The New York Merchant on the Eve of the Revolution* (New York, 1935), p. 133.

[7] Elva Tooker, *Nathan Trotter, Philadelphia Merchant, 1787–1853* (Cambridge, 1955), p. 57.

the center of the business values of Robert Oliver & Brothers. They "desired to have an accurate knowledge of the length and breadth of their obligations," a contemporary merchant later wrote about the most extensive operation in which the Olivers ever participated, "before the scheme could be set in motion."[8] Oliver repeatedly showed his concern for security as well as profit-potentiality. By curtailing his investments in trade and by choosing not to send "a large amount in any one Vessel" he twice enabled his house to survive deflationary shock waves that toppled many of his Baltimore confrères.

To Oliver, the opposite of prudence was a "sanguine speculative disposition." ". . . before you can expect much business in the Commission line," he once advised an apparent beginner in trade, "you must establish a reputation for real industry & prudence & quit visionary Schemes." He thought Richard Caton of Baltimore "too sanguine," "too speculative."[9] Caton surely resembled John Brown of Providence, who had an "inclination toward undue risk-taking."[10] According to Oliver, Aquila Brown, Jr., of Baltimore, lost "upwards of 140,000 Dollars in two years by bad debts on the Sale of Linens."[11] But no doubt an ability to draw learning from loss has proved an important factor in the final success of some men. John Jacob Astor, according to his biographer, partly owed his fortune to that ability.[12]

Probably most men who have entered business have desired to succeed. But some men have hitched their wills to the traces of a single-minded drive. The records of Robert Oliver supply evidence of an extraordinary attentiveness to the life of trade. "You can hardly fail to succeed," he once advised a younger man, "if you will abandon Politicks, *think only of your business*, follow it with unremitting industry and depend on yourself instead of others." He found John F. Kennedy "very irregular in his business," told a Secretary of War (James McHenry) that he paid "little attention" to his "private concerns," and wrote that a Mr. Holmes was "the most inattentive Man to his business we ever met with and he has suffered much by negligence." Oliver once used the occasion of a visit to Philadelphia, presumably made for the purpose of attending

[8] Vincent Nolte, *Fifty Years in Both Hemispheres or, Reminiscences of the Life of a Former Merchant* (New York, 1854), p. 97.

[9] Bruchey, *op. cit.*, pp. 364-365.

[10] Hedges, *op. cit.*, p. 11.

[11] ORB 5, pp. 42–44, to P. Godeffroy Sons & Co., et al., March 22, 1803 (Md. Hist. Soc.).

[12] Kenneth W. Porter, *John Jacob Astor, Business Man* (Cambridge, 1931), Vol. II, p. 640.

the funeral of the man to whom he owed most, to purchase ninety boxes of Havana sugars. On a later trip to New York, again for unstated purposes, he bought over $160,000 worth of nankeens.[13] The man from whom he bought them, John Jacob Astor, undoubtedly exemplifies even more clearly than Oliver a single-minded devotion to the goal of success. "Astor's life," to use the words of Miss Henrietta Larson, "was business, and he had a passion for profits and an abhorrence of waste or loss."[14] A contemporary merchant, Vincent Nolte, once remarked of Astor: "His mind was incessantly busied with the increase of his resources, and had no other direction."[15]

We know from Kenneth W. Porter's careful study that Nolte's characterization exaggerates, and that Astor found time for family, friends, and a variety of cultural interests.[16] Yet it is clear that Astor's business schemes sometimes incubated during nonbusiness hours, while riding around Manhattan on his horse, for example. Perhaps this explains why he reputedly "'did not bestow at his countinghouse more than half the time most merchants feel compelled to give their concerns.'" But no doubt for the majority the countinghouse represented "a chance to think, to plan, to work out policies, to arrange for others to do the detailed work."[17]

Yet it must be admitted that we have little satisfactory evidence of the length of time spent by merchants in their countinghouses. The natural assumption, that it depended upon the volume of trade, would appear from Astor's instance not always to hold. Samuel Eliot Morison has supplied additional reason for questioning the dependence: despite a considerably increased volume of trade the merchant patriciate of Federalist Boston can hardly have spent more than three hours a day in their places of business.[18] We know that the "busiest years" of Colonel William Pepperrell of Piscataqua and of his son lay in the decade following the Peace of Utrecht, which was "one of expanding trade," but the evidence does not permit a situating of the Colonel in his countinghouse any specified number of daily hours.[19] Neither does it in the case of Robert Oliver for such a year as 1807, during which the Baltimore mer-

[13] Bruchey, *op. cit.*, pp. 363–364.

[14] N. S. B. Gras and Henrietta M. Larson, *Casebook in American Business History* (New York, 1939), p. 78.

[15] Nolte, *op. cit.*, p. 143.

[16] Porter, *Astor*, Vol. II, Chap. 23.

[17] Gras and Larson, *op. cit.*, pp. 78, 6.

[18] Samuel Eliot Morison, *The Maritime History of Massachusetts* (Boston, 1921), pp. 130–131.

[19] Byron Fairchild, *Messrs. William Pepperrell: Merchants at Piscataqua* (Ithaca, 1954), pp. 47, 49.

chant dispatched vessels twenty-six times to Vera Cruz, Lisbon, Barcelona, Amsterdam, Trieste, and New Providence.[20] In other instances, oblique evidence provides support for the possibility of sizable stretches of time in the countinghouse. Business, for Thomas Hancock, was "his one engrossing interest." During 1771–1772, at least, his nephew John was "spending less and less time in the countinghouse, and more and more in bed or the general assembly." The biographer of Gerard G. Beekman, a New York merchant whose trade at least touched "four continents," reports that Beekman "abstained from such pleasures [as hunting] in his early years, preferring to devote his energies to trade." [21] Similarly, Elias Hasket Derby of late eighteenth-century Salem is said to have had "his commercial affairs at all times during his early life directly under his eye." [22] By the mid-nineteenth century, at any rate, the merchants of New York, according to Scoville, spent considerable, if leisurely stretches of time in the "throne-room" of their enterprises.[23]

In that throne-room lay the bookkeeping records which made it possible for all the strings of diverse enterprise to be controlled by the hand of the resident merchant. "Considerable judgment was needed," as Miss Harrington has said, "to juggle remittances, returns and investments successfully." [24] Accounts informed that judgment, at least for men with good housekeeping habits. How carefully did eighteenth-century merchants keep their accounts? W. T. Baxter believes that colonial bookkeeping was in general "dilatory" and that a leading reason for this was the "tiny scale of business." [25] The association between care in record-keeping and scale of business seems to me persuasive. But I believe Baxter's generalization has two weaknesses: (a) it appears to rest largely upon an examination of the records of small-scale firms whose proprietors were primarily storekeepers rather than merchants and (b) does not take into account changes in the scale of business which occurred as the eighteenth century advanced.[26] Of course,

[20] See list of sailings in front of ORB 6 (Md. Hist. Soc.).

[21] W. T. Baxter, *The House of Hancock, Business in Boston, 1724–1775* (Cambridge, 1945), pp. 146, 281–282; Philip L. White, *The Beekmans of New York in Politics and Commerce, 1647–1877* (New York, 1956), p. 218.

[22] James D. Phillips, *Salem and the Indies* (Boston, 1947), p. 78.

[23] Cited by Robert G. Albion, *The Rise of New York Port* (New York, 1939), p. 264. The word "throne-room" is Miss Larson's (*op. cit.*, p. 6).

[24] Harrington, *op. cit.*, p. 116.

[25] W. T. Baxter, "Accounting in Colonial America," in A. C. Littleton and B. S. Yamey, *Studies in the History of Accounting* (Homewood, Ill., 1956), p. 280. Baxter believes that " 'colonial accounting' " lasted well into the 19th century. "By say 1820, the modern look is beginning to creep in: cash appears more often, debtors can sometimes be distinguished from creditors, and the double-entry structure is less incomplete." (Pp. 286-287.)

[26] Baxter cites not only the records of a "general store," but also those of an innkeeper

even in the late eighteenth (and early nineteenth) centuries many firms were in business in a small way, so that it is not surprising to find, as Margaret E. Martin has found in examining the records of Connecticut River Valley merchants, that their daybooks "were usually kept in the most informal manner."[27] In England itself at the end of the eighteenth century "double entry was practised . . . mainly by merchants engaged in wholesale trade, and by no means by all of them."[28] Miss Martin adds, significantly: "No account books of *important* Hartford merchants who might have kept their books in a more careful manner have been discovered."[29]

There is reason to believe that as the volume of trade increased, earlier eighteenth-century laxness in record-keeping often gave way to a careful practice of double entry. In this respect as in others, furthermore, the evidence is clear that one merchant differed from another. The beginnings of change appear to have accompanied an early increase in trade volume between 1720 and 1740, and they have been described as follows by Carl Bridenbaugh:[30]

> In every colonial port this period brought a marked advance in the methods and extent of trade. The increased sums of money and larger number of items handled made it necessary for merchants to maintain staffs of clerks in their counting houses. Bookkeeping by "Double Entry, Dr. and Cr., the best Method," came into wide use everywhere except at Newport by 1733, and schools gave instruction in shorthand and the Italian method of keeping books. Accountants offered their services in all the larger towns. . . .

Obadiah Brown of Providence reflects this new emphasis on careful record-keeping for in the early 1730's, and "probably at the insistence of his older brother," Obadiah "taught himself accounting methods, using for this purpose *A Guide to Book Keepers according to the Italian Manner* [i e., double-entry] published in London

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and blacksmith (pp. 275, 278, 280). It is true that a merchant was also a storekeeper, but I disagree with Baxter's conception of the storekeeping function as the focal point of the merchant's business activity, an activity in which ventures in foreign trade are regarded as "sidelines to his principal business" (p. 280). Baxter first elaborated this conception in his interpretation of Thomas Hancock as driven to engage in a variety of trading enterprises by the necessity for obtaining sterling exchange with which to pay for the goods he imported from London for sale in his store. In my opinion, it is infelicitous to envisage Hancock's "little bookshop" as the "nerve-center of a complex and far-flung business," which included shipowning, mining and paper mill projects. (Baxter, *House of Hancock*, pp. 45–48, 62.) I believe Hancock to have been a typical 18th-century merchant in the sense that he sought profits from investments in diverse enterprises.

[27] Margaret E. Martin, *Merchants and Trade of the Connecticut River Valley, 1750–1820* (Smith College Studies in History, Vol. XXIV, No. 1, 1938–1939), p. 144. Daybooks, however, are books of first, rough entry and can be expected to have been kept with less formality than journals.

[28] A. C. Littleton and B. S. Yamey, *Studies in the History of Accounting* (Homewood, Ill., 1956), p. 11 (Introduction by B. S. Yamey).

[29] Martin, *op. cit.*, p. 144. (My italics.)

[30] Carl Bridenbaugh, *Cities in the Wilderness* (New York, 1938), p. 359.

in 1729."[31] Probably the next generation of Browns also kept its accounts with care, for a year's end calculation of gain or loss is implicit in the proposal of John Brown " 'of Augmenting our Business Annually as our proffits may be or the Contrary Lessening as we Loose. . . .' "[32]

On the other hand, accounts might inform the judgment of an uncle but not of his nephew: "Thomas [Hancock] knew as much about his own affairs from an accounting standpoint as was possible in mercantile capitalism, while John was generally hopelessly swamped."[33] Or one cousin and not the other: "James [Beekman] was as meticulous in keeping records as Gerard was careless."[34] "Mr. Freelands' Books," a fellow merchant in Baltimore once complained, "have been so irregularly kept that there is no finding out those that have been indebted to him." An "ignorance of business [and] confused accts" had led another Baltimore merchant astray.[35]

Miss Harrington finds that "most" New York wholesale houses on the eve of the Revolution appear to have used double-entry bookkeeping, and that a "fairly high level of proficiency must have been maintained." The ledger and wastebook of the Livingstons, for example, are "models of the double-entry books":[36]

> The ledger contains impersonal accounts as well as those of individual customers: adventures, bills of exchange, bonds and notes, merchandize general, vendue account, invoice accounts, bills receivable, bills payable, interest account, suspense account, profit and loss, and also accounts for special articles such as pig iron, sugar and the "Ship Commerce."

In Maryland, the Ridgely Account Books, which embrace most of the eighteenth century and continue into the nineteenth, are kept by double entry. The combined Daybook and Journal (1788–1795) of the Baltimore merchant William Wilson shows, like the Ridgely volumes, use of Profit & Loss, adventure, and other impersonal accounts. But no Maryland accounting records, to my knowledge, compare in richness with those of Robert Oliver & Brothers of Baltimore. Some notion of how meticulously the Olivers kept their books is provided by a credit to the Profit & Loss account for 6 cents, which is offset by a charge to the account of ship captain William Robinson "to make his account on the Books agree with the

[31] Hedges, *op. cit.*, pp. 5–6.
[32] *Ibid.*, p. 16.
[33] Editor's preface (N. S. B. Gras), in Baxter, *House of Hancock* p. xxii.
[34] White, *op. cit.*, p. 656. But James was certainly not a meticulous bookkeeper all his business life (cf. p. 352 with pp. 469, 490, and 492).
[35] Bruchey, *op. cit.*, p. 364.
[36] Harrington, *op. cit.*, p. 96.

one furnished this day, which arises from charging him a half cent too little on sundry Premiums of insurance –." [37]

Just as merchants differed in respect to prudence, will, and housekeeping habits they differed also in intelligence. It is, of course, impossible to exhibit this difference except in terms of varying reactions to similar situations. And it hardly need be said that variety in reaction itself depends not only on intelligence, but also upon knowledge, and upon such other factors as capital or credit status, liquidity and knowledge of the extent of it provided by orderly accounts, prudence, force of will, and so forth. Furthermore, the situations themselves are very numerous, far too numerous for consideration here. In changing contexts provided by government action or inaction and by rising and falling markets in peacetime and war, merchants had to decide such questions as what commodities to invest in and where to buy them, where and when to ship them and in what assortments, whether to consign their goods to ship captain, supercargo, or resident merchant, whether to invest in vessels or freight space, what goods to have purchased as returns, whether to invest part of the proceeds of the outward cargo in bills of exchange, where to dispose of return cargoes: by reshipment or by sale in the local market, and, if the latter, what credit terms to give and what men to trust; and finally, how to employ the proceeds of business: i.e., how to balance investments between ships or ship-shares, commodities, warehouses, bonds or notes, real estate, and, later, stocks.

Numerous as were the decisions to be made, almost all of them called for the exercise of judgments with respect to foreign markets. Residing in one port as they did, and not accompanying their wares to market, all merchants depended considerably upon other members of a wide mercantile community, upon ship captains and supercargoes (especially in the East Indian trade), and upon other merchants resident in foreign (and often domestic) ports. The interdependence of resident merchants throughout the commercial world rested upon a mutual need for services almost indispensable to the conduct of trade. Resident merchants not only supplied each other with the information upon which investment decisions often rested, but performed other services, such as advancing part of the value of goods prior to their sale and holding them for better times. "Information was exchanged," Miss Martin makes clear, "regarding prices and the probable course of trade . . . and . . . advice

[37] In Md. Hist. Soc., Baltimore. The Oliver entry is in ORB 10, p. 225.

[was] given to agents or friends. . . ." That information was as important in coastal as in foreign trade is suggested by the admonition sent in 1784 by Johnson, Johonnot & Company of Baltimore to its resident agent in Boston: "I can only say this that if we do not pay strict attention in writing & answering our Letters p every post. we had better leave writing. at all. [*sic*] and trust all to Chance - -"

Hedges found in the Brown Papers "many illustrations of the care with which [the Browns] gathered all possible information before embarking upon a new venture."[38] As the case of Gerard G. Beekman illustrates, a merchant might seek information from another American city: "In the season of 1753–54 Gerard began to exchange information with a resident correspondent of Philadelphia, Townsend White."[39] Or he might seek it abroad. Robert Oliver in 1807 went so far as to propose (successfully) to an English house giving him keen competition in trade to Vera Cruz that the two firms exchange information in regard to the nature and value of their shipments, the number of vessels and voyages made, the nature of exports from the United States, and the condition of the Vera Cruz market![40] Far more typical was the routine exchange of price and market information between two merchants residing in different ports. Acting on the basis of such information every merchant was at one moment principal, at another commission agent.

Agency relationships typified eighteenth-century commerce between Europe and America, as well as between many of the ports of Europe itself. According to Sombart and Max Weber the growth of consignment trading "was the outstanding feature of eighteenth century trading." The commission agent, says Charles Wilson, was the "real representative" of the trade between Amsterdam and the ports of England, Spain, and other countries. W. T. Baxter finds the agent to have been "the keystone of New England's foreign trade." "The London commission merchants with whom the Trotters [of Philadelphia] did business," Miss Tooker observes, "were in effect their representatives abroad."[41]

The ship captain-agent, however, dominated colonial trade with the West Indies. According to Kenneth W. Porter, "Participation

[38] Martin, *op. cit.*, p. 124; Hedges, *op. cit.*, p. 330; to Francis Johonnot, Feb. 15, 1784 (Letter Book, Johnson, Johonnot & Co., 1783–1785, Md. Hist. Soc.).

[39] White, *op. cit.*, p. 243.

[40] Bruchey, *op. cit.*, p. 317.

[41] For Sombart and Weber, see Harrington, *op. cit.*, p. 68; Charles Wilson, *Anglo-Dutch Commerce & Finance in the Eighteenth Century* (Cambridge, 1941), p. 11; Baxter, *House of Hancock*, p. 197ff., 300ff.; Tooker, *op. cit.*, p. 75.

by local merchants in the sale and purchase of cargoes in the West India trade is not conspicuous." Hedges reaches a similar conclusion, for "only occasionally were factors employed to assume part of the burden of buying and selling." In the West Indies, Miss Harrington has noted, "the market, though steady, varied from island to island." John Hancock's "instructions to captains show that it was often undesirable to draw up rigid plans regarding the route to be followed. . . ." Instead, as Christopher C. Crittenden has observed, the master might be instructed to proceed to a particular island, such as Martinique, and upon arrival "to inquire concerning the condition of the markets both there and in other islands to the leeward, and . . . to sell where, everything considered, the greatest profit could be reaped." Or he might, Hedges emphasizes, enjoy even greater leeway by embarking on "a huckstering voyage with cargo to be sold wherever he could find a market." Richard Pares believes that the majority of colonial West Indian shipments were consigned to captains.[42] Such consignments by no means came to an end with the colonial period. In July, 1794, for example, the Baltimore merchant Samuel Smith ordered a ship captain to Fort Dauphin "where you will enquire the state of the market, and either sell there or proceed elsewhere, as you shall find most to our Interest." [43]

This widespread reliance upon ship captains in the West Indian trade is attributable to a variety of circumstances. Miss Martin has pointed out that many merchants "had received their early mercantile training as captains of vessels engaged in that trade and were well-acquainted with market conditions both in the West Indies and in adjacent Central and South American ports." Only a limited number of commodities were imported – principally sugar, rum, molasses, and coffee – and these were "much simpler to select and appraise" than European manufactured goods would have been. Furthermore, goods were often bartered against goods, "which eliminated the necessity of a commission merchant to provide short-term credit." In addition, as Pares reminds us, except for lumber nearly every article of North American produce was perishable in the tropics, and hence could not be stored for long to await an upturn in the market. Advances by agents, although

[42] Porter, *Jacksons and Lees*, Vol. I, p. 48; Hedges, *op. cit.*, p. 27; Harrington, *op. cit.*, p. 91; Baxter, *House of Hancock*, p. 56; Christopher C. Crittenden, *The Commerce of North Carolina, 1763–1789* (New Haven, 1936), p. 109; Hedges, *op. cit.*, p. 9; Pares, *op. cit.*, p. 77.

[43] Ltr. to Capt. Thomas O'Bryan, July 30, 1794. Smith Letter Book, III (1794–1818), Md. Hist. Soc.

sometimes made pending the sale of an outward cargo, were therefore not as important as they would otherwise have been. An even more basic reason for consignments to captains was the necessity for giving them leave to take their cargoes in search of markets that were not glutted. "Only three ports – Bridgetown in Barbados, Kingston in Jamaica, and above all the Dutch island of St. Eustatius, were markets of conspicuous size or wide commercial connections. The capitals of the lesser islands were glutted by a very few cargoes – still more so the smaller towns like Spikestown, Barbados." Certainly in the earlier colonial years probably few merchants did sufficient business with any one port to permit active relations with an agent there. Much less did volume justify relations with agents at several markets. This I think is the reason why, to use the language of Pares once again, "hardly any North American merchant had such wide connections as to possess a settled correspondent in every likely West Indian port." [44]

To be sure, not all North American merchants consigned their West Indian cargoes to ship captains. "Most" of the Pepperrells' shipments to the islands during the middle colonial years, and to Spain and Portugal as well, "were consigned to their correspondents." Pares finds that some Philadelphians, at least, "seem to have done half their business, or more, through resident factors [i.e., agents]." Philip L. White's study of the Beekmans of New York reveals that while Gerard (1717–1797), in his "scattered, sporadic, speculative" Caribbean ventures, "quite often" entrusted his cargoes to ship captains, James (1732–1807) participated in an agency relationship with a merchant of Barbados which conformed to the "general pattern of much colonial trade." [45] Trade statistics for the period are notoriously meager and unreliable but it is highly probable that the volume of West Indian trade increased in the advancing eighteenth century,[46] bringing with it an increase in consignments to resident agents. Miss Harrington finds that New York mer-

[44] Martin, *op. cit.*, p. 133; Pares, *op. cit.*, pp. 84, 78. It is my conclusion, rather than Pares', that advances were therefore not as important as they would otherwise have been.

[45] Fairchild (Pepperrells), *op. cit.*, p. 156; Pares, *op. cit.*, p. 77; White, *op. cit.*, pp. 307, 339.

[46] For West Indian trade expansion in the case of *New York*, see Harrington, *op. cit.*, App. D and G; for *Philadelphia*, see Robert G. Albion, "Colonial Commerce and Commercial Regulation," in Harold F. Williamson, ed., *The Growth of the American Economy* (New York, 1951), p. 53; for *Baltimore*, see Clarence P. Gould, "The Economic Causes of the Rise of Baltimore," in *Essays in Colonial History Presented to Charles McLean Andrews by his Students* (New Haven, 1931); for *the Connecticut Valley region* (general trade expansion), see Martin, *op. cit.*, pp. 19–20, 52–53; for *Newport*, see Bridenbaugh, *op. cit.*, pp. 331, 362; for *Charles Town*, see Bridenbaugh, *op. cit.*, p. 332; for *the British West Indies*, see F. W. Pitman, *The Development of the British West Indies, 1700–1763* (New Haven, 1917), pp. 190, 202–203.

chants on the eve of the Revolution "commonly had agents resident in the West Indies." The Baltimore firm of Oliver & Thompson, established soon after the end of the Revolution, nearly always made its consignments to agents during the years 1785–1790.[47]

In the 1790's an increase in variety was added to the increased volume of goods exported to the West Indies. During most of the colonial period articles of domestic produce or manufacture had made up the list of exports, e.g., the timber and fish of Piscataqua, the bread and flour of New York, the candles turned out by the "'Spermacetic Works'" of Obadiah Brown of Providence, or various goods picked up in coasting voyages by Rhode Islanders lacking in a tributary back country. After the outbreak of the Continental Wars in 1793 had seen a superior British fleet wipe enemy shipping from the high seas, American merchants began to import such goods as nankeens (from China) and German linens (especially from Hamburg and Bremen) not only to supply domestic American markets but also to provide, via neutral shipping, for the total needs, and not merely part of the provisioning needs, of the Caribbean islands. The Olivers of Baltimore reveal some of the effects of the new demand. "One cargo of German linens," they wrote in 1800, "was formerly a large supply for a year's consumption and we have now a demand for more than fifty cargoes. The consumption of East India Goods has also increased astonishingly." A few months before they had made clear that the reason for much of this greatly increased demand was "Our West India trade on which we chiefly depend for the Sale of Linens. . . ."[48]

Rising demand must have made more and more possible the services of resident commission agents in the West Indies. Let us consider why this should be so. News of need for an article in the islands often took three or three-and-a-half weeks to arrive in Baltimore, and even if a merchant there had a supply of the article on hand and a vessel outfitted and ready for sea it required another three or three-and-a-half weeks for it to reach market. In earlier colonial times these six or seven weeks would have permitted some huckstering, island-hopping ship captain or two, dispatched to the West Indies with cargoes of familiar commodities suited to an habitual commerce, to stumble luckily upon the demand and fill it. But would not this situation have occurred more readily in 1750 than in 1800, and in 1700 than 1750? In the later years was it not increasingly

[47] Harrington, *op. cit.*, p. 193; Bruchey, *op. cit.*, p. 148.
[48] Bruchey, *op. cit.*, pp. 80, 190, 194–195.

possible for a resident merchant to say to his agent, as Samuel Smith of Baltimore said to one of his in 1788: "We hope your next [letter] may encourage the return of our Brig[an]t[ine] to you"?[49] In the later years, in short, even if an agent informed correspondents in several North American ports of high prices in his market, it seems quite possible that those prices were supported by a demand of sufficient depth to accommodate without loss more cargoes than in the earlier years. Could not merchants increasingly, therefore, avoid the wasteful and time-consuming ventures of their huckstering ship captains and base their investment decisions on price information from a number of alternative markets? If so, it became increasingly important for men like the Olivers to place their business "in the hands of Men of Stability, *good information* & undoubted integrity."[50] For there can be no question that the larger profits "depended on having first knowledge of a market and arriving before the crowd."[51]

The preceding discussion seems to me to suggest the possibility that the eighteenth-century merchant became more and more able by forethought to narrow down the area of impotency ruled by luck. This interpretation must, however, meet a widely held view that slow and unsure means of communication placed a heavy discount upon the value of planning. "Despite the merits of the agency system," says Baxter, "it involved very weak control by a merchant over his foreign trade. He had perforce to trust his agents blindly." Not only was "skill at bookkeeping and auditing so rare that he had little check on their transactions" (a point which we have seen is open to question), but his messages to them traveled "at a snail's pace." Hedges also emphasizes "the leisurely pace of commerce in the eighteenth century," and the "guesswork and uncertainty involved in transacting business at such a distance" as that between Providence and Surinam. When a vessel arrived, Byron Fairchild concludes, was "chiefly a matter of wind and weather."[52]

It is my opinion that far too much emphasis has been placed upon the irregularity and uncertainty of communications. It is true that copies of letters and bills of exchange were sometimes sent in triplicate, or even in quadruplicate. But these acts of insurance attest only to the possibility that important documents might mis-

[49] Ltr. to Messrs. P. Burling & Co., Nov. 6, 1788 (Smith Ltr. Bk., II, in Md. Hist. Soc.).
[50] ORB 4, pp. 29–31, to J. & F. Baring & Co., July 22, 1800. (My italics.) (Md. Hist. Soc.)
[51] Harrington, *op. cit.*, p. 87.
[52] Baxter, *House of Hancock*, p. 302; Hedges, *op. cit.*, p. 28; Fairchild, *op. cit.*, p. 51.

carry: in themselves they shed little light on the question of how great was that possibility. Similarly, one might cite many examples of long passages and delayed arrivals. But their typicality must await adequate statistical evidence of sailing times, and it may be that definite answers are impossible to attain. Lacking adequate data, one may incline toward Carl C. Cutler's thesis of the "fitful, changeable character of the North Atlantic gales," or subscribe to the less romantic view of Herbert Heaton: "Much has been said about the 'maddening uncertainty' of sailing ship movements. Yet the dates of arrivals of vessels [from England to American ports] do not vary greatly from year to year." [53]

William Pepperrell does not appear to have been at the mercy of the elements: he "seems to have counted on Barbados sugar, molasses, and rum being ready in March, since four of his seven spring sailings between 1717 and 1724 arrived in Barbados during that month." The other three arrived in February or earlier. It was not uncertainty with regard to the elements, but with regard to the market, together with William's "positive assurance that he could depend upon Thomas Kerby, his correspondent at Antigua, to accept goods whenever available and hold them for the arrival of one of William's vessels," that explain the "irregularity of his Antigua sailings." [54] A voyage from Baltimore "to the West Indies and back," the Olivers remarked in 1797, "is *often performed* in 6 or 7 weeks." In 1808 the Baltimore firm observed that its schooners "generally completed their voyages [to Vera Cruz and back] in 60 days." That this is close to the truth is indicated by the available evidence: The average time required for 20 such voyages undertaken in the years 1805–1807 was 62½ days. On the other hand, in August of 1802 the Olivers reported that one of their vessels "had forty nine days passage to St. Croix which *should not have* exceeded 15. . . ." [55]

The fact that these Baltimore merchants could say that voyages were "often performed" in a specified time, or that a voyage "should not have" exceeded a given number of days, seems to me to point to the distinct possibility that regularity in communications was the rule and not the exception. It would therefore seem to me justifiable to place less stress upon wind and weather and more on the

[53] Carl C. Cutler, *Five Hundred Sailing Records of American Built Ships* (Mystic, Conn., 1952), p. 22; Herbert Heaton, "The American Trade," in *Trade Winds*, C. N. Parkinson, ed. (London, 1948), p. 200.

[54] Fairchild, *op. cit.*, p. 52.

[55] Bruchey, *op. cit.*, pp. 144, 300. (My italics.)

intent of the merchant shipper, less on fortuity and more on forethought. If there was relatively little forethought in early colonial times and more dependence upon lucky strikes by wandering ship captains was it not possibly because the volume and nature of the West Indian demand rather than the elements blunted the point of planning?

Since forethought depended so much on fresh information from many market centers I suspect that it became increasingly important in the advancing eighteenth century to acquire and retain good agents – and not by any means for West Indian trade alone. Merchants themselves often solicited agency business, as did Carter Braxton of Virginia in 1763 and James Beekman of New York after 1783.[56] Sometimes agents were sought out: "perhaps it may suit you in future to Transact similar business for the House of S. S. & B & Buchanan Spear & Co – in both which our S. S is interested," Samuel Smith of Baltimore suggested to a Martinique merchant in 1794.[57] From time to time representatives of foreign houses came in droves to the cities of America to drum up business for their principals. Agents for British houses swarmed in Boston in 1785. In 1799 Oliver referred to the "many agents" of Dutch houses then in Baltimore. To make new American connections was among the purposes of Alexander Baring's trip from England in 1795, and Oliver was among his acquisitions. At different times Oliver dispatched his two younger brothers to Europe partly for the purpose of acquiring additional agents.[58]

Because of the key role they played in eighteenth-century commerce, ability to manage one's agents with skill often affected the outcome of investments. As is to be expected, merchants displayed varying abilities in this regard. The Pepperrells' biographer concludes that "an important element" in the success of the Piscataqua merchants "was their ability to maintain satisfactory relations with their correspondents." But that luck cannot be ruled out as a factor in that success is evident from the fact that when William Pepperrell's agent at Antigua complained that the sale of lumber cargoes was tedious, Pepperrell "agreed with what the latter had to say . . . thanked him for not giving up his business, and then went on sending more lumber." Thomas Hancock "did not scruple" to send his

[56] Hedges, *op. cit.*, pp. 72–73 (Baxter); White, *op. cit.*, p. 541 (Beekman).

[57] Ltr. to John Gay, July 30, 1794. (Smith Ltr. Bk., III, Md. Hist. Soc.) Col. Wm. Pepperrell tried in 1727 to obtain the services of an agent in Carolina to avoid the delays of ship captains (Fairchild, *op. cit.*, pp. 94–95).

[58] Bruchey, *op. cit.*, pp. 149–151.

London supplier "a rival correspondent's prices, demanding a rebate." If "all was not sweetness and light" in the relations between James Beekman and his correspondents, neither was it between the Olivers and theirs.[59] The Olivers could bristle at affronts to their credit reputation, complain about poor sales, or quarrel about rates of commission. But when they found a correspondent who was "*Solid, Liberal & Active* qualities which we consider absolutely necessary for an agent" they endeavoured to hold on to him. A new firm in Liverpool once solicited their business; they wished it well but stated that they "could not change from a House with whom we have been long connected." To a warmly recommended house in Amsterdam they wrote: "you cannot expect that we would quit Men with whom we have been long connected without being first assured of some advantage." They were highly reluctant to change correspondents, and almost always did so only after long and repeated efforts to accommodate differences. "We have wrote you at least twenty Letters, since we received any from you," they told a Martinique merchant in 1800. "Surely we have not given you any just cause of offence, and if we had, it was your Duty to let us know it –." They showed their appreciation of good men not only by thanking them for jobs well done, but by inducing other Baltimore merchants to consign shipments to them, thus enabling them to earn commissions.[60] And, like Gerard G. Beekman of New York, who rarely used captains or supercargoes in his trade with Rhode Island, "probably [because of] the desire not to offend his correspondents,"[61] the Olivers' apologies are by no means uncommon when they addressed their shipments to captains or supercargoes. ". . . Nothing but the Uncertainty of your residence prevented a direct consignment both this voyage and her last," they told a Martinique correspondent in 1796.[62] To one agent they paid $4,600 "for the purpose of dispatching the Brig Isabella from Jeremie . . . ," while to another they gave a bonus of $20,000 as "an additional Compensation . . . for your faithful Services at Vera Cruz."[63]

Orders for goods that were accompanied by specifications too precise and confined seem to indicate quite clearly an uninspired management. Gerard G. Beekman's specifications were so cautious

[59] Fairchild, *op. cit.*, pp. 164, 54–55 (Pepperrells); Baxter, *House of Hancock*, p. 201 (Hancock); White, *op. cit.*, p. 350 (Beekman).
[60] Bruchey, *op. cit.*, pp. 149–151, 159, 142, 156–157.
[61] White, *op. cit.*, p. 298.
[62] Bruchey, *op. cit.*, pp. 150–151.
[63] ORB 18, p. 46, entry of Feb. 15, 1806; ORB 6, p. 411, to J. G. Villaneuva, Sept. 13, 1808 (Md. Hist. Soc.).

in the period after 1770 as to leave his biographer in doubt whether his orders were possible of fulfillment. James Beekman "seemed congenitally unable to recognize that the constant wartime trend was upward. Consequently he frequently spelled out in his orders price specifications which bore little relation to the actual state of the British market into which his orders came." In ordering goods from London during the period from 1803 to 1822 the Trotters of Philadelphia "often . . . left so little discretion to their agents that the latter were prevented from taking action when opportunities arose quite unforeseen." To a merchant of Venice who had sent them "so particular" an order that they preferred not to fill it, the Olivers of Baltimore wrote:[64]

> we have no desire to do commission business unless we can give perfect satisfaction and if you should hereafter think proper to give us any orders, we advise you to state your views and expectations and leave us to Judge of the propriety of carrying them into effect.

At the opposite extreme was imprecision. James Beekman had a "remarkable talent for vagueness and ambiguity." One supplier threw up his hands: "'We cannot tell what you mean by yard wide Cotton Strips at 12½ per Ell neither could our Agent in Manchester. . . . we wish you would send us a pattern of it.'" In one instance at least there appeared in Colonel William Pepperrell's instructions to his ship captain "a certain amount of ambiguity and confusion" which led to an unintended trip from Barbados to London and, from the viewpoint of profit, "an unsatisfactory voyage."[65]

But this was far from typical, for when the Pepperrells "sent their captains on a 'trading voyage,'" they "attempted to provide for every contingency" by means of their "thorough, detailed letters of instruction." The Browns of Providence "might give [to their ship captains] reasonably specific instructions or they might grant substantial measures of discretion." Gerard Beekman "frequently . . . employed his own discretion in contravening his instructions when he deemed it was in his customer's interest to do so." The British correspondents of James Beekman "usually . . . exercised their own discretion in deciding how far above his [price] maximum they could go with safety." John Jacob Astor was in the habit of giving "detailed instructions . . . to his captains and agents" but he could do so "without . . . stifling his agents' initiative."

[64] White, *op. cit.*, p. 290 (Gerard Beekman), p. 387 (James Beekman); Tooker, *op. cit.*, p. 75 (Trotters); Bruchey, *op. cit.*, p. 143.

[65] White, *op. cit.*, p. 387 (James Beekman); Fairchild, *op. cit.*, pp. 66–67.

On the whole, the relations between the Olivers and their agents were more characterized by elasticity than by rigidity: they appear as a rule to have preferred an informed judgment to meticulous obedience to instructions. They once expressed their regret that a Dutch house had complied with their preference for an immediate sale: "We always prefer an early Sale, but we do not By any means wish you to part with our goods when the Market is depress'd by large arrivals and especially when so many circumstances combine to induce a belief that a favourable change will soon take place –." When on another occasion a cargo did not do as well as they had hoped, the Olivers attributed it to the failure of a Hamburg agent to comply with "our positive orders . . . to sell immediately." Yet they concluded that "your intentions were no doubt very good and we must rest satisfied." Sometimes the Olivers expressly authorized an agent to send their vessel to a second port. Yet they would not deny his discretionary power to do so, even if they considered it "contrary to positive instructions." They once criticized a Leghorn agent not because he had ordered their vessel to Genoa, but because "if it was consider'd expedient to send her to a second Port, Genoa was not the proper place." [66]

The wide discretion practiced and expected by the Olivers was thus subject to criticism after the event, so to speak. *Ex post facto* criticism must itself have provided valuable guidance to agents who would receive many other consignments in the future. Interchanges of complaint and rebuttal must themselves, therefore, have narrowed the area of uncertainty in continued relations between merchant and agent. But it should be emphasized that even the first in a series of shipments to an agent saw the merchant make the "controlling decisions," i.e., the investment-initiating decisions which sent a cargo of a certain kind to a particular port (this was certainly the rule) at a particular time. And when he dispatched a cargo only to a general market area, addressing it to captain or supercargo on board to give him power to take it to the most promising port, he was far from impotent if he had intelligence and knowledge enough to restrict discretion with prearrangements and preferences, and if he had resident agents in a number of ports to supply guidance and aid on the spot. Fairchild makes clear that resident merchant, captains and agents formed for the Pepperrells

[66] Fairchild, *op. cit.*, p. 163 (Pepperrells); Hedges, *op. cit.*, p. 27 (Browns); White, *op. cit.*, pp. 253, 387 (Beekmans); Porter, *Astor*, Vol. I, pp. 533, 536; Bruchey, *op. cit.*, pp. 142–143 (Olivers).

an intelligently managed team,[67] but I should like once again to make use of the rich Oliver materials to illustrate the nature of teamwork.

In September, 1803, the Olivers contemplated a voyage of their Schooner *Ann* to Europe, a sale there of her outcargo of sugar and coffee, purchase of a cargo suitable for the West Indies, and remittance of the proceeds in bills to either London or Amsterdam, depending on exchange rates. Appointing a supercargo, Lowry, they addressed him thus:

> **We hope and expect you will be able to procure at Leghorn a correct state of the different Markets in that quarter which will enable you to determine where the cargo will answer best. We have already informed you that Trieste is the Port we have in view, but you are at liberty to proceed to any other where you think her cargo will answer better. . . . If the Blocade of Hamburg and Bremen is continued Sugar and Coffee will probably be very high at Trieste and German Linens low, in which case you will of course proceed there and load the Ann with such articles as you may think most likely to answer here, preferring Linens calculated for the Spanish Colonys provided you find that Nation are at War with England.**

The Olivers also sent letters to houses in Trieste, Venice, Leghorn, London, and St. Thomas. They asked the Leghorn house to give Lowry "any information in your power . . . respecting the value of Sugar and Coffee at Trieste and other Markets in your neighborhood." In the event the proceeds of the sugar and coffee were insufficient for the purchase of the homeward cargo, the Barings of London were asked to furnish aid in this manner: "If you have any friend there [in Trieste] in whom you can confide we wish you would send an introduction to our Super Cargo who will value [i.e., draw] on them." From the house in St. Thomas, the Olivers requested information on the "State of your Market" for German linens, in case Lowry purchased returns in Trieste, and for Castile soap, oil, red wine "and such articles as are generally imported from the Straits." By July of 1804 the Olivers were able to inform the same house that the *Ann* had arrived in Trieste "about the 20 March," and they expressed the hope she was then at St. Thomas, for the Captain "is instructed to place his Cargo in your hands provided you can sell it at certain limits and to bring it here in case these limits cannot be obtained." The *Ann's* cargo, purchased in Trieste, was unloaded in Baltimore after calling at St. Thomas in vain for a market.[68]

[67] Fairchild, *op. cit.*, pp. 156, 163.
[68] Bruchey, *op. cit.*, pp. 146–147.

In sum, as the case of the *Ann* illustrates, an eighteenth-century merchant might do much to influence the outcome of his investments in foreign trade. To do so, he necessarily relied on the aid of his agents, chosen and managed with varying degrees of skill. Indeed, if it be true, as seems quite possible, that an increased West Indian trade was accompanied by an increased use of agents, the area of business amenable to control widened during the course of the eighteenth century. To be sure, communications were slow, they were sometimes irregular, and decisions once taken might later appear mistaken in the light of changed conditions, or of factors previously unknown. Yet when such a situation developed we often find an Oliver, a Beekman, an Astor, or a Brown dispatching follow-up letters in the wake of a departed ship captain.[69] There must be few such letters so poignant as the one addressed in August, 1794, by Samuel Smith of Baltimore to Captain Thomas O'Bryan:[70]

> Since your departure from hence — we have certain accounts — that F Dauphin [Fort Dauphin] was taken by the Brigands. and every white person, whether on shore or on board the vessell — was put to Death — So that it will be perfectly unsafe for you to go there —

Sometimes follow-up letters failed to arrive in time.[71] When all is said and done, the difficulties under which he labored, as Hedges has well observed, "demanded that the successful eighteenth century businessman use continuously every ounce of wit, imagination, patience, and perseverance which he possessed."[72]

Some merchants, as I trust the preceding pages have made clear, had more wit and perseverance, more prudence and better housekeeping habits than others. In general and in the long run possession of these qualities must have played significant if imponderable roles in the achievement of business success. But having said this I would reaffirm my sense of the impossibility of demarcating between these factors themselves, or between all of them, on the one hand, and, on the other, luck. The luck (it is not always this, of course) of having the right relatives is a case in point. Gerard Beekman "profited in many ways from the assistance of his relatives in getting started," and for his cousin James "the family tie was [also] beneficial." Porter has extensively discussed "Kinship

[69] ORB 3, pp. 81–82, to Hall & McIntosh, Aug. 16, 1797 (Oliver); White, *op. cit.*, Vol. I, p. 272, to John Bennit, Jan. 28, 1756; Porter, *Astor*, Vol. I, p. 431; Hedges, *op. cit.*, pp. 78–80.

[70] Smith Ltr. Bk., III, 1794–1818 (Md. Hist. Soc.).

[71] Pares, *op. cit.*, p. 85.

[72] Hedges, *op. cit.*, p. 29.

and Business" as a "conspicuous feature of business in early Massachusetts [that appeared] in all its aspects." I agree with Robert K. Lamb's thesis that the "extended kinship family" must be emphasized as a factor in the success of entrepreneurs. Certainly no one familiar with the story of Robert Oliver would be inclined to minimize the role of luck. Two nearly incredible sets of brother-in-law relationships gave him an opportunity to make from trade to Vera Cruz in 1806–1807 a nearly incredible net profit of $775,000 in 18 months. But no reader of the record of those months can fail to be impressed with the intelligence and vigor (and also occasional unscrupulousness) with which Oliver proceeded to make the most of his opportunity, or with the extent of his dependence upon a faithful agent.[73] Here, as elsewhere, it is a case of the man and the moment, and while, with an ear to what a poet once said about the outcome of the best laid plans, I would give luck its due, I would also give man his, especially, in this narrow case, the business community of man.

[73] White, *op. cit.*, pp. 534 (Gerard Beekman), 347 (James Beekman); Porter, *Jacksons and Lees*, Vol. I, p. 88; Robert K. Lamb, "The Entrepreneur and the Community," in *Men in Business*, W. Miller, ed. (Cambridge, 1952), p. 93; Bruchey, *op. cit.*, Chap. 6 (Oliver).

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The Hawkes Papers: A Case Study of a Kansas Mortgage Brokerage Business, 1871-1888

Much of the capital to finance economic growth flowed from East to West in numerous trickling streams, having as their source the middle-income professional class and as their destination the small farmer. Uniting such borrowers and lenders were middlemen like Charles M. Hawkes, whose operations — here described in detail — were characterized by direct cognizance, financial mobility, deliberate restriction, and great prudence in the face of a shifting, hazardous market.

The merchant bankers of early nineteenth-century America, who combined financial activities with their mercantile interests, are recognized to have played an important part in providing credit for the economy. But comparatively little attention has been paid to the place of the small lender and the individual middleman in the history of the American credit system after the separation and specialization of financial endeavors. Studies of the capital market after the Civil War have tended to emphasize industrial credit and institutional lenders. And even the provision of agricultural credit has been largely surveyed in terms of a flow of funds from institutions such as commercial banks, savings banks and life insurance companies. Yet in the last two decades of the nineteenth century the most important aspect of agricultural capital movement was the channeling of personal savings through private mortgage companies and individual brokers. This article presents a case study of some generally overlooked aspects of the history of the flow of capital in the United States. The period involved is also the last in which private, non-local, individual funds made up the major source of investment in agricultural land mortgages.

During the early years of the 1880's on America's western frontier, population increased rapidly, land values soared, crops and

prices were good, and ambition and enthusiasm reigned. As noted by Professor T. D. Clark [1] it has been in the act of securing credit that the farmer has generally emphasized his industry's hopes and aspirations. To acquire capital the western settler (or speculator) often was ready to offer his land as security for a loan. Happily for the growth of the West there were in the eastern United States potential lenders with savings to invest. But it remained necessary to bring willing borrowers and willing lenders together, a problem largely solved by the rise of specialized land mortgage companies (a category used here to include individual brokers and private mortgage companies negotiating individual mortgages, and incorporated companies which issued debenture bonds backed by mortgages). With crops good and land steadily increasing in value, mortgages on western real estate seemed a safe investment, and many such mortgage companies sprang up to transmit funds from East to West. More than 150 land mortgage companies came under the supervision of officials of Connecticut, New York, Massachusetts, and Vermont during the years 1888 to 1895.[2]

Many questions about the mortgage business and its role in the boom of the 1880's have not yet received final answers. Questions concerning the nature of the cost of credit to the borrower and of returns to the lender, as well as other matters of policy and procedure on the part of the mortgage company, can best be approached by examining the activities of the lending agencies. One such agent was Charles M. Hawkes, of Portland, Maine, and New Haven, Connecticut, an individual mortgage broker with a fair-sized Kansas business. Deposited with the Kansas State Historical Society at Topeka are fourteen bound volumes of letterpress books which include the business (and some personal) letters written by Hawkes between December 11, 1871, and January 20, 1888. The period covered by the letters is a vital one in the Kansas real estate mortgage boom, and their contents provide some insight into the business activities of one mortgage broker and into the feelings of some of the participants in the Kansas real estate boom.

As a young man Hawkes spent the years 1854 to 1858 working in the West, about nine months in 1854 in a Chicago bank and four years in Davenport, Iowa. From about 1859 to 1866 he was with

[1] T. D. Clark, "Records of Little Businesses as Sources of Social and Economic History," *Bulletin of the Business Historical Society*, Vol. XIX, No. 5 (Nov., 1945), p. 155.

[2] Allan G. Bogue, "The Land Mortgage Company in the Early Plains States," *Agricultural History*, Vol. 25, No. 1 (Jan. 1951), p. 21. For some excellent case studies of both borrowers and lenders in the period by the same author see *Money At Interest* (New York: Cornell University Press, 1955).

the House of John Lynch and Company, Portland, Maine, and in 1866 became silent partner in Lynch, Barker and Company, having charge of the books and accounts.[3]

[The company] carried on an extensive West Indies Exporting and Importing business. We built and run the Eagle Sugar Refinery here [Portland] from 1866 to 1871 furnishing from our means the working capital and doing all the buying (Importing 15,000 hogsheads molasses per year) — and selling the sugar and syrup . . . . [The] firm was dissolved on the 11th October last and on the afternoon of the 12th I was on my way west to prospect a little . . . . My account with L[ynch], B[arker], & Co. was closed 12th October by my drawing $10,500 — in cash. . . . Besides this I had of my own about $2,000 available for business and have between $4,000 and $5,000 of family funds which are entrusted to me and of course may become convenient to use in carrying Bonds. . . . To sum up you will perceive I have say about $17,000 nearly all available in my business. This I want to employ so as to be perfectly safe and give me something over a living. I do not propose venturing upon any risks nor to spread out but to work up a wholesome business to be extended gradually if advisable . . . .

The above letter tells in his own words in what manner and with what means Hawkes entered the western bond and mortgage business. His earliest undertakings were in the bonds of local governmental units in the state of Missouri. On November 18, 1871, he wrote to the county clerk of Lincoln County, Missouri, inquiring about the financial condition of the county with regard to its ability to service and redeem $121,500 worth of bonds issued to the St. Louis and Keokuk Railroad, principal and interest to be paid by a tax levy of 1 per cent. Apparently satisfied with the reply he bought some of the bonds and was soon able to place them with investors. He continued to deal in securities of Missouri townships and counties, but in 1873 laxness in payment of coupons on certain issues caused Hawkes to begin to display a dislike for municipal bonds. In December, 1873, he pointed out that "the default in Missouri Municipal Bonds have injured sales very much," and in the summer of 1875 he wrote to a customer that "the safest of the Missouri cities are careless about providing payment with the *promptness* that a *dealer* in Municipal Bonds finds most pleasant." [4] By 1877 defaulted interest payments had caused Missouri municipal bonds to be quite out of favor with Hawkes. On November 14 he became aware that the city of Sedalia was about to replace its 10 per cent bonds dollar for dollar with 30-year, 5 per cent bonds, a move labeled "rascally" and "unjust." And in March, 1878, word

[3] C. M. Hawkes to Messrs. Donaldson and Fraley, St. Louis, Missouri, Jan. 23, 1872.
[4] C. M. Hawkes to Mrs. Rebecca Clarke, Norridgewood, Maine, June 8, 1875.

was received that the city of Chillicothe, Missouri, had voted to repudiate bonds which he had handled, after voting down a proposition to pay 50 per cent of their value. Instances of this nature plus the opportunity to invest in Kansas real estate mortgages cooled Hawkes' original enthusiasm for Missouri municipal bonds, and in the spring of 1883 he wrote to a potential customer explaining that he had invested "in Municipal Bonds, but finding upon investigation that I could not *enforce* their payment as I could that of mortgages, I retired my Bonds selling them and investing in Real Estate Mortgages . . . ." [5] And in 1886 he summed up his attitude toward Missouri in this manner:[6]

I used to have a pretty good opinion of Missouri but a better acquaintance with the state has lessened it very much. Like the other old slave states it is "old fogy" and not good field for me for their prejudices against Northern men are very strong however much they may disguise them when there is an opportunity to make a little money off from a Northern man.

As the opportunity presented itself Hawkes began to veer away from the municipal bond business and towards dealing in real estate mortgages. As early as December, 1871, when asking a Missouri correspondent to recommend some good bonds he also inquired about the availability of "gilt-edge" real estate mortgages. The earliest inquiries concerning Kansas real estate mortgages were directed in July, 1873, to the Lawrence Savings Bank, Lawrence, Kansas, and to the Shawnee County Bank, Topeka, Kansas. In September Hawkes found a customer willing to lend on "business property first class – productive and well located" with "an experienced reliable and capable man to provide for payments." [7] Confidence in the new investments was implied when Hawkes wrote to his sister in June, 1874, that he might "possibly convert a thousand or so of your bonds into Kan. mortgages if seriously tempted." [8] At the outset of his lending operations upon Kansas real estate Hawkes showed decided preference for urban business property.[9]

I cannot do anything now with farm risks but might possibly interest some other parties in small $1000 to $1500 risks upon city business property well located . . . and later on may possibly do something in first rate farm mortgages, making the loan small in proportion to the value of the farm.

[5] C. M. Hawkes to Mrs. E. P. Abbott, Boston, Massachusetts, May 4, 1883.
[6] C. M. Hawkes to Elder Elijah Myrick, Ayer, Massachusetts, Dec. 7, 1886.
[7] C. M. Hawkes to G. F. Parmelee, Topeka, Kansas, Sept. 3, 1873.
[8] C. M. Hawkes to Miss Huldah Hawkes, Portland, Maine, June 19, 1874.
[9] C. M. Hawkes to G. F. Parmelee, Topeka, Kansas, June 26, 1874.

Parmelee in turn pressed for loans on farm property but for a time Hawkes remained cautious and reluctant to lend on such security. However by 1875 he told a correspondent that "I have lately negotiated largely of Mtges. on first class improved Kansas farms . . . ,"[10] and the next month he gave the following advice to an investor: "My present preferences are decidedly for Kansas farm mortgages, such as I am negotiating in but cannot get fast enough to supply the demand."[11]

By this time Hawkes had shifted the major emphasis in his business from municipal bonds to real estate mortgages. In the fall of 1875 he arranged for the following advertisement (which mentioned mortgages, but not bonds) to appear in the Portland *Press*:

To Investors

Having changed my residence "from Portland to 753 Chapel Street, New Haven, Connecticut," I shall continue to give special attention to Western Investments with improved facilities for securing safe and profitable uses for money intrusted to me. Carefully selected ten and twelve per cent Real Estate Mortgages and Deeds of Trust furnished. Collections and remittances promptly attended to. Correspondence invited. Address as above.

And within the mortgage loan field, a shift to confidence in farm loans is evidenced by this testimony to a lender:[12]

My good opinion of farm loans – small loans on improved farms, increases and even at considerably less than ten per cent interest, I would give them preference over any other form of loan that I know of today for my own money. They are prompt beyond my expectations, and I have no fears for any of the large number that I have negotiated. One feature that I like is that I can enforce my claim by legal remedies and this makes me master of the situation so that I do not expect to be obliged to do so . . . .

The comment cited above that Hawkes was "getting out of the disagreeable [municipal bond] business" as fast as possible, in conjunction with a letter written seven days later to a Kansas correspondent (". . . forward some 'gilt-edge' to amount of $10,000 – very soon . . . but they must come early. . . . Have accessible about $18,000 but other applications have arrived and arriving"[13]) indicates that the changeover in Hawkes' business from handling bonds to handling mortgages almost exclusively was nearly completed by the summer of 1877.

Certain geographic preferences existed in Hawkes' mind re-

[10] C. M. Hawkes to W. F. Foster, Norway, Maine, May 20, 1875.
[11] C. M. Hawkes to Mrs. Rebecca Clarke, Norridgewood, Maine, June 8, 1875.
[12] C. M. Hawkes to Mrs. H. M. Wheeler, Woodford, Maine, May 12, 1876.
[13] C. M. Hawkes to Messrs. Kollock and Chenault, Peabody, Kansas, July 18, 1877.

garding the Kansas real estate mortgages he handled, preferences which tended to change over the years. In 1875 when Hawkes was just beginning to take a serious interest in the mortgage business he wrote to a customer that his loans were made "mostly in Johnson County, Kan., within 15 to 75 or 80 miles of Kansas City." [14] The next month an application from Butler county was rejected because there was so little land under cultivation there. In February, 1878, in reply to a query from Ottawa county he stated that he had "no occasion to enlarge the list of counties in which I was doing business. . . . I visit once a year, at least, your state & prefer to keep my business consolidated sufficiently to admit of visiting my correspondents . . . ." [15] In 1881 Hawkes wrote as follows to a Fredonia correspondent: [16]

I have no business in Rush Co. Would have been pleased to do some business there with you had I seen prospect of desirable business, but I found nothing that seemed attractive last November when there.

Less than a year later, however, Hawkes voiced willingness to accept applications from an area farther west than any previously acceptable region. "I am hoping for two or three good applications soon from Cowley & Sumner Counties – both good counties. . . ." [17] And suiting action to words, he wrote a firm at the county seat of Sumner county, stating that he would "be pleased to see some applications from you." [18] The next westward step was to counties adjoining one another in north central Kansas, Cloud and Ottawa, whence Hawkes received and placed two applications for farm loans in September, 1882. However, a year later he stated flatly that "I do not do any business so far west as Barbour Co. so cannot use an appln. there." [19] But as the decade wore on, Hawkes continued to follow the mortgage business westward. In October, 1885, Lincoln county was added to the north central counties in which Hawkes hoped "to pick up some good loans." Rice county, in the same tier as Lincoln but to the south, came under consideration in the spring of 1887 when Hawkes wrote as follows to Blackwood and Company of Sterling: [20]

. . . I am not personally acquainted very much with your city, having confined my business to the more eastern counties of Kan. until within the past few years.

[14] C. M. Hawkes to Mrs. Rebecca Clarke, Norridgewood, Maine, June 8, 1875.
[15] C. M. Hawkes to M. A. Jordan, Minneapolis, Kansas, Feb. 19, 1878.
[16] C. M. Hawkes to C. J. Smith, Fredonia, Kansas, May 12, 1881.
[17] C. M. Hawkes to Elder J. P. Vance, Alfred, Maine, Jan. 19, 1882.
[18] C. M. Hawkes to Messrs. Fultz and Millard, Wellington, Kansas, March 21, 1882.
[19] C. M. Hawkes to H. O. St. John, Washington, D. C., Sept. 12, 1883.
[20] C. M. Hawkes to Blackwood and Co., Sterling, Kansas, March 18, 1887.

I have reached as far west as the middle of the state. . . , confining myself mostly to county seats on town property and to good farms. I may call on you next autumn if I go to Rice Co. . . .

Finally, late in 1887, a loan was closed by Hawkes on a lot in Stockton, the county seat of Rooks county, the only county (insofar as the available letters show) west of the ninety-ninth meridian from which applications were received by him. Thus there can be observed to have existed for Hawkes a certain zone of acceptability of applications, a zone which steadily moved westward as the years passed.

A discussion of Hawkes' methods of operation may well begin with consideration of Hawkes' own view of his role, expressed to a lender as follows:[21]

. . . my position towards you is that of agent of the "applicant" as you understand already. He comes to me to apply to you for the loan. After the loan is placed with you, I feel in duty bound to try to have the applicant do his duty by you, by keeping taxes paid or watching both his and your interest in regard to them & by prevailing upon him to keep his engagements if possible & thus save sacrificing his property on one hand and best serve your interest at the same time . . . . On the one hand too I have no "Agents" in Kansas as most in this line of business have – on the other hand while I am the agent of some parties in procuring loans, I do not act as agent for everybody, but have my preferences.

Hawkes made it a point to visit the West at least once each year, usually in the autumn, spending from six weeks to three months there (principally in Kansas). The trips were made to "keep familiar with the values of farms there and visit large numbers of my loans each trip,"[22] and further time was spent "in looking over the country and talking over and arranging with competent men whom I deem entirely trustworthy to examine the property upon which borrowers apply for loans, and make their reports to me thereon thus aiming to secure reliable knowledge of the property offered as security . . . . "[23] This was the principal way in which Hawkes acquired the "personal acquaintances at the county seats of the various counties where I do business, to whom I furnish blanks for the borrowers to fill out their applications upon, and these friends of mine visit and examine the property and report upon the applications both as to the property and the men . . . ."[24] To have reliable correspondents supplying only the best applica-

[21] C. M. Hawkes to Elder J. P. Vance, Alfred, Maine, Feb. 16, 1878.
[22] C. M. Hawkes to Elder Simon Atherton, Ayer, Massachusetts, Jan. 8, 1881.
[23] C. M. Hawkes to W. F. Foster, Norway, Maine, Feb. 18, 1882.
[24] C. M. Hawkes to Elder Simon Atherton, Ayer, Massachusetts, Jan. 8, 1881.

tions based upon personal examination of the security was of the utmost importance to Hawkes, especially in the early years of his operations when his own knowledge of Kansas was slight. In 1878, he discussed the situation with a prospective correspondent.[25]

Please bear in mind that the Applicants are entire strangers to both the Mortgagees and to me as well, until they are introduced to me by you and with your recommendation and that I become their agent in negotiating the loan upon such recommendation; and in doing so of course must act upon my confidence in your judgment and candor in setting forth all the facts you know that go to make up a just estimate of the security & the man. It is important for you and me as well as for the mortgagees that we guard against bad loans.

Before accepting applications from a correspondent Hawkes would send him the following letter:[26]

Dear Sir: Before opening business by filling applications from you I desire to have some expressed understanding. You are sufficiently acquainted with the Mortgage loan business to understand probably that the Mortgagee must be ignorant of these remote loans separated as they are by the distance between the New England States and Kansas and that it is necessary to promise them that all the business necessary, in the way of notifying the Applicant (whose agents we become in negotiating the loan), to pay Interest & Principal, seeing that all the papers are properly executed and that the Mortgagees get what we offer them for their money, and their title properly secured to them by having taxes paid and watching that they do not suffer by the property being sold to others for taxes, and in case of foreclosure, if any, that you will when so requested in behalf of the Mortgagees, attend sales and bid, under instructions from the Mortgagees, and attend to all such other business as requires attention in Kansas for the protection of the Mortgagees (Attorney's legal business excepted of course) — and all these without charge to me or to the Mortgagees. Doubtless you expect to do all these, but I desire to leave as little room for misunderstandings as we conveniently can & to request you if you agree, to endorse this over your signature and return to me keeping a copy for your reference.

Hawkes had very definite notions on what he wanted in his loans, which were generally made for three or five years. All mortgages were to be absolutely first liens; all expenses (including abstract of title, and commissions) were to be paid by the borrower; if any papers received from a correspondent were found to be unsatisfactory they would be returned for corrections; the title to the security must be found perfect before the money was paid; all buildings involved had to be insured to the amount of the loan in an insurance company approved by Hawkes; all mortgages had to stipulate that the borrower would pay all taxes on the property, the mortgage and

[25] C. M. Hawkes to Thomas Hookey, Junction City, Kansas, Feb. 23, 1878.
[26] *Idem.*

the interest upon it; and a diagram of the property involved was required with each application (which were themselves models of completeness). Hawkes made use of notes with coupons attached, which were held by the lender. Interest payments were handled in the following manner: ". . . fast as int. is rec'd. by me I send D[ra]ft on New York Bank to the lender for the full amount of the coupons who cuts off and sends me in return the coupons" which were then forwarded to the borrower to serve as his receipts.[27] In describing the process to a borrower Hawkes pointed out that "where notes are given especially where they have the very convenient *coupons*, you always have back either a note or coupon when paid, so that coupon notes are most desirable for you as well as convenient for the party here."[28]

Upon receiving an application it was Hawkes' policy to close the mortgage with money previously deposited with him by an investor if the risk was an unquestionably good one. If it were not, the application was forwarded to the prospective lender for his approval before the loan was made. In Hawkes' words:[29]

> I am getting applications from a large no. of correspondents & shall place for you at earliest moment in your turn, acting upon my judgment if you request but prefer to submit copy of application first, excepting in case of choice applications where money is wanted immediately, & even then if you are not satisfied when you see Appln. I will take the loan on my own hands. . . .

When a loan was closed Hawkes took the following steps:[30]

> When I close a loan I prepare Mortgage and note on my blanks & send them together with my Draft on the National Bank of Commerce, New York, where the money is deposited, making the Draft for amt. of the loan less my Coms. the Drafts to be held until the title is all right & the papers executed & if any failure to perfect the Draft to be returned to me.

It was not a usual thing for Hawkes to attempt to influence the borrower regarding the use of his loan, seemingly being content to rest his decision to lend on the security advanced and the advice of his correspondents. However, he did make it clear that he did not wish "to furnish money to enter [government land] with nor until the debtor can give a mortgage which shall not *antedate* the Patent. I have doubts about the validity of deeds or mortgages previous to *Patent* from Govt. & until I am otherwise convinced I must

27 C. M. Hawkes to Mrs. E. P. Abbott, Boston, Massachusetts, May 4, 1883.
28 C. M. Hawkes to W. J. Moore, Olathe, Kansas, Jan. 15, 1881.
29 C. M. Hawkes to W. F. Foster, Norway, Maine, Feb. 19, 1881.
30 C. M. Hawkes to Major Watson Stewart, Independence, Kansas, March 1, 1878.

decline [such loans]. . . ."[31] Upon at least one occasion a loan was granted on condition that "the money is all to be expended in building & other permanent improvements of the property covered by the mortgage. . . ."[32] However, such a conditional loan was the exception rather than the rule.

Perhaps Charles M. Hawkes' most distinguishing characteristic was his caution. In the early years of his mortgage business he asserted to a prospective investor: "I do not aim to do a *large* business, but to know fully as possible where I am all the time and thus make a permanent business . . . ."[33] This caution has already been evidenced in Hawkes' own view of his role and in his expectations of the duties to be performed by his correspondents. Further evidence is found in his concern for the amount of each loan and for the relation between the size of the loan and the value of the security. Both these concerns were underlined by constant reiteration of the claim that neither Hawkes nor the mortgagees had any desire to acquire land in Kansas.

In June, 1875, he informed a potential lender that he preferred loans "of about $800 on farms worth four or more times this amount."[34] The next month he wrote to a Kansas correspondent expressing preference for "$500 loans excepting where farms have at least 160 acres good cultivated land. We do not want the least possibility of having to take land, but only for the lender the prompt pay't. of principal and interest . . . ."[35] Late in 1875 a number of loans were made ranging from 5 per cent to 45 per cent of the value of the security offered, but centering chiefly on one-fifth to one-fourth of the property's value. The following spring Hawkes emphasized again that he would not handle "any loans that do not show a wide margin of security beyond doubt with me . . . ."[36] Although disclaiming any desire for Kansas farms on the part of the lenders, Hawkes was not averse to foreclosing in the interests of the mortgagee if a borrower became too remiss in keeping up payments. Such a borrower was addressed by Hawkes in these words:[37]

[31] C. M. Hawkes to Messrs. Stevens and Cowgill, Fredonia, Kansas, June 18, 1877.
[32] C. M. Hawkes to J. P. Ennis and Co., Topeka, Kansas, Aug. 26, 1875.
[33] C. M. Hawkes to Elder Thomas Damon, Thomsonville, Connecticut, Jan. 27, 1876.
[34] C. M. Hawkes to Mrs. Rebecca Clarke, Norridgewood, Maine, June 8, 1875.
[35] C. M. Hawkes to J. P. St. John, Olathe, Kansas, July 14, 1875. St. John, later to become governor of Kansas, is first referred to in these letters in May, 1875. The two were later to develop some degree of friendship, based largely on their mutual interest in the establishment of prohibition in Kansas.
[36] C. M. Hawkes to Edward Fox, Portland, Maine, April 10, 1876.
[37] C. M. Hawkes to Wm. Eckert, Howard City, Kansas, Feb. 16, 1878.

The Mortgagees do not want Kan. farms, nor indeed any farms outside their own state and if they can have the interest kept paid up and the principal paid when it is due, this is all they ask or can ask, and they will be perfectly satisfied, but there has been so much delay — now near 14 months since they received any interest that they do not think you are doing your duty by them.

Small loans were most acceptable to Hawkes mainly because they seemed safer, having a greater degree of security than large loans on the same property. He informed his Independence, Kansas, correspondent that he wanted "large margins on these farm loans — that is large ratios of security to loans & so do not find place for *large* loans. Yet for loans that show a large margin — *fine men* & *fine farms* — the loans $600 & upwards I can afford the business at a little more favorable coms." [38] On the same day he notified his Howard City correspondent that loans "so small occasionally as $200, I negotiate only where the borrower & security are such as to indicate that there will be no foreclosures." [39] These messages indicate that (at that particular time) Hawkes preferred to make loans ranging from $200 to $600, going beyond those limits only under special conditions. A few days later he expressed his desires to Major Stewart in terms of the relationship between the loan and the value of the security, saying "I want property that would sell in hard times for three times the loan and with the small loans — $500 & under want four or more times the value . . . ." [40] Mortgages held on January 26, 1880, by the Alfred Society of Shakers ranged in amount from several $200 loans to a $1,000 mortgage on 240 acres of Wilson county farm land and $1,200 on a brick store and lot in Olathe. In May, 1880, Hawkes advised the Society that "still I do not want any loans where the security does not seem ample, and am glad you are like-minded for I want no more foreclosed farms than we are compelled to have." [41] Hawkes held fast to this attitude throughout his years in the Kansas mortgage business, even at times when competition was leading many mortgage companies to lend large sums on poor security.

The price paid by the western settler for capital, and the returns received by the eastern investor are matters still not finally settled. An examination of the rates of interest and commissions paid and received by Hawkes may shed some light on these problems. The interest rates (exclusive of commissions or premiums) payable

[38] C. M. Hawkes to Major Watson Stewart, Independence, Kansas, March 1, 1878.
[39] C. M. Hawkes to A. T. Eby, Howard City, Kansas, March 1, 1878.
[40] C. M. Hawkes to Major Watson Stewart, Independence, Kansas, March 13, 1878.
[41] C. M. Hawkes to J. P. Vance, Alfred, Maine, May 19, 1880.

semiannually by the borrower will be considered first. In September, 1873, mortgages handled by Hawkes carried interest at 12 per cent, a rate maintained till the end of 1875. However, as early as October 21, 1874, Hawkes wrote one of his investors saying that money was being offered in Kansas at 10 per cent. But Hawkes did not recognize 10 per cent as the prevailing rate until April, 1876, and even then continued to try to make 12 per cent loans for his customers. In spite of his efforts that rate could not be maintained and Hawkes wrote in May, 1877, to a Kansas correspondent that "within the past year I have been able to place some loans @ 10% int. . . ." The interest rate continued at 10 per cent through 1878 until September when Hawkes, while in Kansas, observed that "good 10% investments are pretty scarce. Loans making by some at 8% and 9% interest – but higher coms. than on 10% loans as a rule."[42] And in October he complained that "rates are gradually diminishing – considerable money is loaned there yielding the investor 8% & some at 9% and the funds offering at these rates interfere already considerably with my business at 10% although the agents in Kan. get a higher com. on the lower interest rates . . . ."[43] Although Hawkes closed a 10 per cent loan on November 20 he was forced to drop his rates in 1879 to 9 per cent and finally to 8 per cent.

The decline in rates is clear in the statement prepared for the Alfred Society of Shakers in January, 1880. The first loans (made in 1875) were at a rate of 12 per cent, with a 10 per cent loan not appearing until July, 1876. Another 10 per cent loan was entered in December, 1876, and a third in February, 1877, after which the 10 per cent rate predominated until May, 1879. At that point 9 per cent became the modal rate, and continued so till the end of the year. In February, 1880, Hawkes indicated to another customer that 8 per cent interest was the best he could do "except occasionally on town property or where money is wanted quickly, etc. 9% can be obtained – but rarely." The displacement of 9 per cent by 8 per cent as the dominant rate was completed between January, 1880, and January, 1881. During that period Hawkes closed 14 loans for the Alfred Society, 13 at 8 per cent and only one at 9 per cent. After a slight scare in the fall of 1881 when Hawkes found "too much 7% money offering" in Kansas, the rate came to rest on 8 per cent and remained there through January, 1888.

[42] C. M. Hawkes to H. J. Wheeler, Woodford, Maine, Sept. 20, 1878.
[43] C. M. Hawkes to Rev. W. J. Alger, Saco, Maine, Oct. 23, 1878.

Hawkes always kept his commission charges separate from the rate of interest described above. And since he saw his role as that of agent for the borrower, his commissions were payable by the borrower. Hawkes collected his commission by deducting its total amount before sending his draft for the loan to the borrower. Commission rates varied over the years showing perhaps less consistency of movement than did the interest rates. In July, 1875, Hawkes was receiving a commission of 8 per cent on the total amount loaned. But with a dullness appearing in the business he reduced the rate slightly to 5 per cent on three-year loans and 7½ per cent on five-year loans. The amount of commission continued to fluctuate, reaching 7½ per cent for three-year and 10 per cent for five-year loans in the spring of 1877, and in the autumn climbing (for three-year loans) to 10 per cent on town property and 7 per cent on farms. The following spring brought a further change, and in March, 1878, the commission on three-year loans was 6 per cent on loans of $600 and up, and 7 per cent on those under $600. At the same time Hawkes' commission on five-year loans was 8 per cent on farm lands and 10 per cent on town property and small loans. By July, 1882, Hawkes was receiving 5 per cent commission from the borrower on a five-year loan, or 1 per cent per year. There was little change until about April, 1884, when Hawkes asked a Kansas correspondent for applications at commission rates of 4 per cent for three-year loans, 5 per cent for five-year town loans, and 4 per cent for five-year farm loans.

In 1885 the commissions requested by Hawkes were higher, perhaps because his locus of operations had moved farther west to more recently settled regions. On February 23 he wrote to Messrs. McDonald and Phelps of Miltonvale (in Cloud county) that "7% coms. to me is about as well as I can do on 5 years. On some very choice farms and good 3 years I could make coms. 6% on farm property." [44] An application furnished by a Clay Center correspondent was placed in June at 7½ per cent commission for three years. This rate was maintained in north-central Kansas at least into 1886, when Hawkes asked for a 7½ per cent commission on three-year loans but suggested that he would "for *very attractive* Loans perhaps shade off one-half to one per cent for three years." [45]

It should be emphasized that the commission figures discussed above are those received by Hawkes from the borrower. He made

[44] C. M. Hawkes to Messrs. McDonald and Phelps, Miltonvale, Kansas, Feb. 23, 1885.
[45] C. M. Hawkes to Messrs. Hawkes and Hawkes, Lincoln, Kansas, May 21, 1886.

clear to his correspondents that their commissions were payable by the borrower and were not to be taken from the rates quoted by Hawkes. At no time did Hawkes attempt to dictate (or even suggest) to his correspondents appropriate rates for such commissions. The only figure mentioned in these letters is 2½ per cent, which he suggested would be a reasonable commission for his son Samuel to receive for himself above the 1 or 1½ per cent which went to his broker employer in Stockton, Kansas.[46]

As agent for the borrower Hawkes received a commission from the mortgagor. After 1882 the investors doing business with Hawkes were also required to pay a premium of 1 per cent annually to him upon mortgages made for them. Thus on 8 per cent loans the investor was netted 7 per cent per annum, the total amount of the premium being payable to Hawkes in lump sum at the time the applications were accepted. At the same time Hawkes agreed to pay 3½ per cent annually on the investors' funds at his disposal awaiting acceptable investment.[47] The amounts of the premiums were reduced in 1885 to 4 per cent on five-year loans and to 2½ per cent on three-year loans, where they remained through January, 1888.

Hawkes also undertook to guarantee to his investors the regular payment of interest and the final payment of the principal invested, when requested.[48]

. . . if I contract to <u>guarantee</u> the interest will always be paid promptly to you whether the borrower pays or not and the principal will, <u>when guaranteed,</u> by me, be paid to <u>you</u> in full whether I collect it or not – that is I shall <u>when guaranteed</u> enforce collection when necessary at my own expense and whatever deficit to pay in full from sale of property under foreclosure, make up from my own pocket.

In 1875, with the interest rate of 12 per cent, Hawkes guaranteed payment of the principal and interest "receiving to myself for doing so the interest above 10%. That is *guaranteeing* . . . ten per cent *interest* payable promptly fast as due, and the *principal* ultimately."[49] By 1878 when the prevailing interest rate had dropped to 10 per cent, Hawkes wrote as follows:[50]

If you would like my guarantee of all these [loans] for the interest above 8% to be retained by me I will give you a clean endorsement and pay the interest fast as due at 8% to you without reference to collections until the principal sums are paid.

[46] C. M. Hawkes to S. N. Hawkes, Stockton, Kansas, Dec. 9, 1887.
[47] C. M. Hawkes to Elder Otis Sawyer, Alfred, Maine, Jan. 23, 1882.
[48] C. M. Hawkes to W. F. Foster, Norway, Maine, Feb. 18, 1882.
[49] C. M. Hawkes to W. F. Foster, Norway, Maine, July 14, 1875.
[50] C. M. Hawkes to Capt. David A. Hawkes, Lewiston, Maine, Aug. 9, 1878.

By 1882 Hawkes had reduced his guarantee commission to "one per cent per year which is entirely independent of the premium which the loan *unguaranteed* commands. Until quite recently I have had 2% per annum for all I guaranteed . . . . I do not exact the payment of guarantees at the time the money is loaned but keep out the one-half per cent each six months from the interest which collected of the borrowers. . . ."[51] Very few of the mortgages handled by Hawkes were guaranteed by him, most lenders preferring to take the greater risk involved in order to receive the greater returns.

Hawkes' customers on the lending side fell into two classes: (1) a number of colonies of the "United Society called Shakers" in New York and New England, one of which was undoubtedly his biggest single lender, and the several societies together provided the bulk of his loanable funds; and (2) individuals chiefly from the professional classes, often personal friends, sometimes with trust funds to invest. Since the Shaker societies were perhaps his most important source of funds, it will be worthwhile to inquire into Hawkes' relations with the colonies and with the elders who served as trustees for the money which was invested.

The founder of the United Society of Believers, Mother Ann Lee, and eight followers arrived in America from England in 1774 and two years later established a colony in New York State. In spite of persecution and imprisonment the sect grew in numbers. The members were hard-working farmers and craftsmen and their cooperative communities were prosperous. At one time there were 18 Shaker colonies in the United States, with probably 5,000 members and property worth about $5,000,000. The decline of the society began in about 1860 and continued steadily; in 1949 there remained the New Lebanon colony and three or four others, with less than 200 members.[52]

Hawkes' business acquaintance with one Shaker group dated back to 1859. He wrote in 1876 to a Thompsonville, Connecticut, elder requesting funds to invest for the society and at that time stated:[53]

. . . I have had a business acquaintance with the New Gloucester Society & with Elder Otis Sawyer of about 17 years when they did business with the House of John Lynch and Co., Portland, Me., in which I was then and later with Lynch, Barker and Co. of which I was a partner during their continuation from

[51] C. M. Hawkes to W. F. Foster, Norway, Maine, Feb. 18, 1882.
[52] Elmer T. Clark, *The Small Sects in America* (Rev. ed.; New York, 1949), p. 145.
[53] C. M. Hawkes to Elder Thomas Damon, Thompsonville, Connecticut, Jan. 27, 1876.

1865 to 1871 . . . . My acquaintance with Elder Vance is more recent but like that with Elder Sawyer has ripened into one of mutual confidence and friendship . . . . When at my suggestion that I could benefit the Society he entrusted investments with me . . . .

Lending by the Shakers through Hawkes was under way by July, 1874, when "J. P. Vance and James Pender Trustees of the United Society called Shakers of Alfred, Maine, or their successors" were named as prospective mortgagees for a Topeka business property. Soon afterwards the New Gloucester Society entered the field, seeking four mortgages totaling $1,200 in January, 1876. In the same month Hawkes, having recognized the Shakers as a good source of funds, requested information about other societies.[54]

It occurs to me that there are Societies elsewhere that it would be well for me to have the address of that I might be all ready to send some good applications to, some of these days, thus doing them good as well as myself. A little advice and line of introduction from you would help along and be highly appreciated.

Apparently Vance complied, for seven days later Hawkes wrote the letter to Elder Damon which has been quoted above.

By late 1879 the Mt. Lebanon, New York, Society acting in the person of Elder Robert Valentine, was making loans through Hawkes. Valentine in turn placed Hawkes in contact with another of the societies.[55]

At the kind suggestion of our mutual friend Elder Robert Valentine when he was here about three weeks ago, I address you to say that I shall be happy to serve you in the way of carefully selected Real Estate Kansas Mortgages . . . . Elder John P. Vance of Alfred, Maine, and Elder Otis Sawyer of New Gloucester . . . have had a pretty long experience with me and introduced me to Elder Valentine.

Elder Atherton, as trustee for his society, later became a lender. The last new contact with one of the societies recorded in these letters came in 1887 when Hawkes described his lending business to Albert J. Battles, Shaker Station, Connecticut. At that time the Alfred, New Gloucester, Harvard, Shirley, and Mt. Lebanon societies were making investments through Hawkes' facilities.

The societies lent funds in varying amounts, with the Alfred Society (of which Vance was trustee) being far and away Hawkes' biggest investor. A statistical picture of this society's lending operations provides some information on the extent of a trust fund's lending operations and on the extent of Hawkes' own business. On

[54] C. M. Hawkes to J. P. Vance, Alfred, Maine, Jan. 21, 1876.
[55] C. M. Hawkes to Elder Simon Atherton, Ayer, Massachusetts, Jan. 8, 1881.

February 12, 1876, the Alfred Society held a total of $23,500 in Kansas real estate mortgages. Nineteen months later, in September, 1877, Vance's society held $42,755 worth of Kansas mortgages. There is recorded under the date of January 26, 1880, the most complete statistical breakdown of the loans made by the Alfred group which is to be found in these letterpress books. On that date the society held 87 Kansas mortgages of which 12 had been foreclosed. (Eleven of them were deeded to Vance as trustee, the twelfth was still in foreclosure.) The foreclosed mortgages totaled $7,505 and ranged from a $200 loan on 80 acres in Wilson county to a $2,500 mortgage on three lots and a building in Topeka. The mortgages in force ranged from several $200 loans to a $1,200 loan covering a store and lot in Olathe, and came to a total of $32,250. Of the 87 mortgages, 12 had been made on town lots and/or buildings and the remainder on farm property. Some idea of the amount of business Hawkes conducted annually for the Alfred Society is conveyed by comparing the volume of loans made and those paid off in a year's time. Between February 9, 1880, and January 20, 1881, 27 of the society's mortgages amounting to $14,000 had been paid off by the borrowers. During roughly the same period (January 26, 1880, to January 12, 1881), Hawkes closed 14 new mortgages for the society at a total face value of $15,700. By February 1, 1883, Vance's holdings in trust were 64 mortgages ranging from $50 to $3,000, and totaling $34,000. In the next twelve months the number of mortgages held fell to 49, but the total amount of loans was $36,000 made up of mortgages of from $200 to $3,000. The last such statement available in the letterpress books, dated February 27, 1885, showed the holdings of the Alfred Society to be $41,075, held in 68 mortgages which ranged in amount from $100 to $2,000.

In addition to the trust funds of the Shaker societies, Hawkes had personal funds available and also loaned money for the members of his rather large immediate family. Other investors whose funds were handled by Hawkes were a minister; two Yale professors (one of whom invested funds held in trust); a Portland, Maine, judge; and many other personal acquaintances. The amounts loaned by the different parties varied and a complete picture of their lendings is not available. The available information does show that one H. J. Wheeler of Woodford, Maine, held on November 12, 1878, 12 mortgages totaling $4,450, all guaranteed by Hawkes, part at 8 per cent and the rest at 10 per cent. His investments remained nearly stable, totaling $4,400 on 13 mortgages as of June 22, 1881.

Reverend Alger (the minister mentioned above) held on February 1, 1883, 16 mortgages ranging from $200 to $615 and totaling $4,700. Hawkes' circle of lenders, as evidenced by the material available in his letters, was not large nor were its members extremely affluent, seeming rather to be from the middle-income, mainly professional, group. His wide range of acquaintances among thrifty New Englanders and his originally more or less fortuitous contact with the Shaker societies permitted Hawkes (whose activities appear to have been fairly representative of the many individual brokers and private mortgage companies of the period) to mobilize the personal funds of many small savers and channel them to eager borrowers in the West – thus assisting in financing that stage of the frontier's economic development.

Unfortunately the available letters cease as of January, 1888, so there is no way to determine from that source how subsequent events affected this particular mortgage broker. Hawkes denounced the low rates of return which followed the increased competition, and the lack of caution among some lending agents, at the peak of the boom in 1887. But there is nothing in his letters through January 20, 1888, to indicate that he foresaw the deluge of foreclosures and business failures, and the rising tide of agrarian discontent which were to occur within the next few years.

By Peter Mellish Reed
LECTURER IN ASIAN HISTORY
AT SARAH LAWRENCE COLLEGE

Standard Oil in Indonesia, 1898-1928

For many years Americans engaged in business abroad at their own risk, unaided in any important way by the backing of their government. When confronted with the forces of national self-interest, they faced frustration. Then the policy of the United States, aware of its economic responsibilities and opportunities and dangers, swung to their support. The new diplomacy was not always adept, but it produced remarkable changes. These are exemplified in the thirty-year history of American efforts to gain an entry to the oilfields of the Netherlands East Indies. The files of the Department of State provide an intimate and unique view both of motivations and the mechanisms of change.

The early history of the Standard Oil Company and its successor, the Standard Oil Company of New Jersey, in Indonesia can largely be told in terms of diplomatic relations between the Netherlands government, on the one hand, and the Standard Oil Company and the United States Department of State, on the other. It may be said, moreover, that any success which Standard met in its quest for oil concessions in the Dutch colony prior to 1928 should partially be credited to an active interest in petroleum on the part of the Department of State. The truth of this statement may be ascertained by a careful scrutiny of the company's attempts to gain profitable concessions in Indonesia and the record of official United States diplomatic interest in obtaining greater oil reserves for American companies operating in foreign areas. From records of State Department correspondence, one is led to believe that Standard's activities in the Dutch colony were of little success until the State Department lent a hand by encouraging a revision of Dutch petroleum policy so that American interests would be able to receive equitable treatment with Dutch-owned companies.

Current Indonesian oil production does not measure up to that of other world centers of production. Prior to 1928, however, the Dutch colony was one of the largest crude oil producers outside of the United States. More important than this, the quality of petroleum from Indonesian wells was of such value that it attracted the

attention of Standard Oil prior to 1900, when the East Indian oil industry was comparatively young and small. For example, gasoline refined from Sumatran crude oil was of very high gravity. This was a much-desired quality in the early days of the automobile, when engines were much harder to start than now. Crude oil from the Sanga Sanga concession on Borneo and from Tarakan Island contained virtually no sulphur, the presence of which increased the difficulty of refining. However, by the standards of the early twentieth century this oil was considered of very poor quality. It was lower in gravity than Sumatran oil and high in aromatics. Gasoline containing aromatics was considered to be of little value, since it tended to gum, be unstable in storage, and have a bad odor.[1] Late in the 1920's, however, the value of aromatics began to be recognized. The source of industrial hydrocarbons, aromatics help prevent "knocking" in engines, lower the ignition point of gasoline in motors, and prevent gas from being ignited by agents other than the engine's spark plug.[2] Throughout the first three decades of the twentieth century, a period of rapid technological change, Indonesia continued to be a valuable source of crude and refined oil.

The nature of Indonesian crude oil, together with its proximity to the vast Chinese kerosene market, explains the important role which Indonesia played in an intense international rivalry for the control of world oil resources. In terms of Indonesia, this rivalry was between the Royal Dutch-Shell, which by World War I held Indonesia as its private oil preserve, and the Standard Oil Company.

Standard first became interested in Indonesian oil in the late nineteenth century, when it carried on negotiations with several companies then in operation. The first successful concession had been brought in some years before by A. J. Zylker, a tobacco planter, in northern Sumatra. Five years later, in 1890, the Royal Dutch Company for the Working of Petroleum Wells in the Netherlands Indies was incorporated. Although early competition was severe, the Royal Dutch demonstrated tenacity to endure trying times and was in an expansive stage of development when the Standard made its first efforts to purchase shares in a small company operating in southern Sumatra.

In 1898, Standard's negotiations with the Moeara Enim Petroleum Company had proceeded to the stage where one Standard official, John F. Fertig, recommended an alliance with the com-

[1] A. J. Kraemer and E. C. Lane, *Properties of Typical Crude Oils From the Fields of of the Eastern Hemisphere* (Washington, 1937), p. 109.

[2] *Illustrated Petroleum Products Dictionary and Manual* (Los Angeles, 1952), p. 32.

pany.[3] However, other forces were at work which foretold the frustration of this move. Late in 1898, the Netherlands Estates-General considered enacting a mining law to govern the exploitation of petroleum in Indonesia. An important feature of the proposed ordinance, which was finally approved on May 23, 1899, was that only Dutch citizens could be directors of companies operating in the colony's oil fields. The immediate result of this restriction was a plan by Moeara Enim and Standard to form a new Dutch corporation, whose stock would be held by both firms.[4] For the moment, it appeared that a solution had been found to the problem.

Standard soon learned, however, that it would be no easy process to obtain a foothold in the Dutch colony, for, as the law implied, the government did not wish to see the introduction of a foreign company of Standard's potential power. Moreover, Standard and the Moeara directors were unable to resolve the delicate problem of where control of the merged operation would lie. In the same year, J. T. Cremer, the Dutch minister of colonies, wrote Moeara Enim's board of directors and raised a question about the renewal of the company's five-year concession. If Cremer's intention was to discourage the negotiations with the American company, he was successful, for Moeara Enim broke off talks with Standard. The reason for the sudden interference by the Dutch government was attributed by Fertig to opposition by "Brokers and Speculators," who predicted that the American company's entry into active competition would bring an end to opportunities for speculation.[5] Fertig's "Brokers and Speculators" may have been more clearly identified in a letter some twenty years after the incident from Frederick D. Asche, a vice president of Jersey Standard, to the State Department, in which Asche attributed the strong anti-Standard propaganda to a desire to keep all foreign interests out of Indonesia.[6]

The Moeara Enim negotiations represented the last real opportunity for the purchase of a promising concession until a generation later. Standard remained without a large production organization to supplement its marketing activities in eastern Asia until well after World War I. Trading needs were met by oil produced in other Standard fields or purchased from other companies.

[3] Ralph W. Hidy and Muriel E. Hidy, *Pioneering in Big Business* (New York, 1955), pp. 265-266.

[4] *Ibid.*, p. 266.

[5] *Ibid.* See also F. C. Gerretson, *History of the Royal Dutch* (Leiden, 1957, translation), Vol. II, pp. 58-76, for a detailed description of the negotiations.

[6] Frederick D. Asche to State Department, *Petroleum-Dutch East Indies* (hereafter referred to as *PDEI*), April 3, 1920.

The Moeara Enim case raises a question, already alluded to above, that appears in connection with later attempts by Standard to gain favorable or equitable treatment from the Dutch government. Ralph and Muriel Hidy, in their first volume of the history of the Standard Oil Company, point out that anti-Standard feeling was part of a general desire to keep foreign capital out of the Dutch colony. This is substantiated by Asche's letter of 1920 and by Gerretson, the Royal Dutch historian, who makes the further significant point that failure of the United States government to show any interest in supporting Standard in its negotiations was an important factor in defeating the proposed alliance.[7] Viewing the contents of State Department correspondence concerned with petroleum in Indonesia in the 1920's, one is led to consider the Moeara Enim incident as being influenced by something other than mere nationalism. In fact, it appears that Moeara Enim was the first episode in a long battle for petroleum leadership in Indonesia. This conflict was not confined to Indonesia, however, but cropped out in the Middle East, the United States, and South America as well.

The pressure exerted upon the Dutch government to exclude Standard from the colony may be viewed as the case of an individual company, the Royal Dutch-Shell, exerting its influence upon the Netherlands to avoid the strong competition it would have to face if Standard were allowed to operate in the area. This may be substantiated by two facts. The first is that from the time of the Moeara Enim incident there appears to have been a clear attempt by the Royal Dutch to bring all petroleum companies in Indonesia under its control. In 1900, for example, there were eighteen companies competing in the Indonesian oil industry. By 1912, Royal Dutch absorbed its last real competitor in Indonesia, the Dordtsche Petroleum Company.

The combination in 1907 of the Royal Dutch and the Shell Transport and Trading Company recalls a second factor, one of the Hidys' "broad questions of . . . world politics."[8] It is an interesting and, as yet, largely unanswered question as to what the role of the British government was in Royal Dutch-Shell affairs during this period. The British would logically have been greatly interested in the preservation of Dutch East Indian oil fields in "friendly hands," so to speak, because of their proximity to India and the naval base

[7] Gerretson, Vol. II, pp. 64-73.
[8] Hidy and Hidy, *op. cit.*, p. 78.

at Singapore. We will have occasion to refer to this point in discussions of diplomatic correspondence during the 1920's.[9]

Standard finally formed a company in 1912 which could legally operate in Indonesia. The Nederlandsche Koloniale Petroleum Maatschappij (N.K.P.M.) was a Dutch concern with a Dutch board of directors.[10] It was not directly owned by Standard but by its marketing affiliate in the Netherlands, the American Petroleum Company.[11] The purpose of forming this ostensibly Dutch-owned company was not only to avoid public opposition and make the Standard affiliation less obvious, but also to conform with the Mining Law of 1899. It will be recalled that this regulation was designed to prevent American ownership of Indonesian oil fields. At its organization, N.K.P.M. announced it would enter bids on public land which the colonial government was about to sell. Shortly after its formation, N.K.P.M. almost succeeded in obtaining from the government a concession in the rich Djambi area in central Sumatra. The negotiations were conducted in secret, but word got to the Royal Dutch-Shell, which then submitted a higher bid to the government. This caused an indefinite delay in the proceedings and instead of accepting either offer, the government decided in April, 1913, to suspend the mining law then in effect.[12] This suspension left the Netherlands without power to grant concessions or prospecting permits until a new law could be devised.[13]

It appeared as though N.K.P.M. was being checked in every attempt to gain concessions. In order to prospect, a company had to have a special permit which entitled it to a specific area. Usually, such prospecting permits were valid for five years. After an area had proved valuable, the prospector could then apply for a concession which entitled him to the right to mine the site for seventy-

[9] Gerretson makes the following pertinent points (Vol. II, pp. 329, 330; Vol. III, pp. 11-14): Marcus Samuel, head of the British Shell interests and a power in British politics, urged upon the government the importance of fuel oil (which was the main product of Shell's fields in Borneo). At the same time, however, there was reluctance on the part of the British government to become deeply involved in support of a business enterprise. The Royal Dutch-Shell was decidedly opposed to political pressuring, and Deterding was sensitive to excessive British influence. The British fleet, moreover, did not convert to fuel oil until 1917. From these various factors cited by Gerretson, the tentative conclusion may be drawn that prior to World War I the role of the British government in Royal Dutch affairs was minimal. However, historians generally agree, and the author's own research confirms, that there was certainly official British interest in overseas oil reserves prior to World War I. Both Sir John Fisher and Sir Winston Churchill, as First Sea Lords of the Admiralty, vigorously urged the acquisition of an adequate source of petroleum supply for the British navy prior to World War I. The British government's purchase of a large share of the Anglo-Persian Oil Company in 1913 is an example. The absence of conclusive documentation precludes any final judgment of this question at this time.

[10] Alex L. Ter Braake, *Mining in the Netherlands East Indies* (New York, 1944), p. 68.

[11] Hidy and Hidy, *op. cit.*, p. 91.

[12] Henry P. Starret, American consul, Batavia, to State, *PDEI*, Jan. 20, 1922.

[13] *Ibid.*

five years. Prior to January 1, 1913, the N.K.P.M. submitted 1,364 applications for prospecting licenses. Two licenses were granted, both of which proved worthless. Out of 1,200 applications by the Royal Dutch-Shell between January 1, 1911, and April, 1913, a total of 215 prospecting licenses were approved. Eleven mining concessions were granted to Bataafsche Petroleum Maatschappij (B.P.M.), the principal Dutch-Shell subsidiary in Indonesia, while none were granted to N.K.P.M.[14] For five years after the suspension of the mining law, N.K.P.M. could gain no permits or concessions from the government, even though the Estates-General could grant a concession without the existence of mining regulations.

During the war a good deal of sentiment in the Estates-General was expressed in favor of socializing all future concessions in order to avoid international petroleum politics and to operate the resources of the East Indies to the benefit of native Indonesians. This was in keeping with a so-called "Ethical Policy," which was embarked upon in 1902 to better native conditions and eliminate previous exploitative economic policies. The suspension of the mining law in 1913 was later attributed to socialist pressure. In 1920, Charles F. Jewell, the United States consul at Batavia, charged that the suspension of the law was in line with a feeling that there should be more state control of the petroleum industry. Instructions to this effect were embodied in what has been called "General Confidential Order to all Governing Residents of Netherlands India." The order itself was never seen by Americans, but its contents were learned of through unofficial Dutch government sources.[15]

Another example of increasing socialist pressure was the rejection of an attempt on the part of right-wing and government elements to obtain the rich Djambi concession for B.P.M. On March 31, 1915, Pleyte, the minister of colonies, introduced a measure, which, if approved, would grant the Royal Dutch-Shell the right to exploit the Djambi oil field. Albarde, a socialist leader, opposed with a motion, expressing the desirability of more direct state control. On November 11, 1915, when the Albarde motion was passed, Pleyte's bill met defeat.[16] It is believed that these left-wing Chamber members were the ones responsible for the suspension of the mining law. However, it is difficult to determine this conclusively because of the secrecy which surrounded events in 1913.

Left-wing influence may also be seen in the second Djambi con-

[14] *Ibid.*
[15] Charles F. Jewell to State, *PDEI*, Jan. 27, 1920.
[16] *Provisional Report of the Second Chamber* (The Hague, 1921), pp. 1–3.

cession law. A. F. van Idenburg, a later colonial minister, introduced a bill to the Second Chamber on November 17, 1917, which was designed to satisfy both the Royal Dutch-Shell and left-wing legislators. While the Albarde resolution of 1915 expressed the desirability of state control, the van Idenburg compromise bill provided that the government and the B.P.M. were to operate jointly the concession through a new company, the Nederlandsche Indie Aardolie Maatschappij (N.I.A.M.). A report was drafted criticizing the bill's content and it remained in the Second Chamber without being considered until 1920.[17]

In 1917 what is known as the "New Mining Law" was enacted. This law represented a further compromise with the socialists in that it provided for at least half government ownership in all future oil concessions. Furthermore, the government could appropriate any prospecting area which proved of value by remunerating the prospector solely for his actual prospecting expenses.[18]

At first, N.K.P.M. contented itself with prospecting concessions it was able to purchase from Dutch companies and such concessions as had been purchased by the American Petroleum Company prior to 1912. In such cases where it did obtain permits from other concerns, N.K.P.M. agreed to pay a bonus and a royalty for any production realized from the concessions. The permits obtained were usually for abandoned perimeters or areas considered commercially valueless. Between 1912 and 1920, the company managed to obtain only a few permits and it worked these without profitable result.

In 1920, compared with the 2,400,000 metric tons of crude oil produced by the Royal Dutch-Shell in Indonesia, N.K.P.M. realized less than 5,000 metric tons of petroleum from its concessions.[19] On Java, where Royal Dutch-Shell affiliates produced 294,000 metric tons of petroleum on thirteen concessions in 1920, N.K.P.M. realized 3,500 metric tons from its three tracts near Rembang. N.K.P.M. had one producing concession near Palembang in southern Sumatra which accounted for 1,433 metric tons of petroleum. Dutch-Shell holdings in Sumatra, which totaled twenty-eight concessions, produced 519,000 metric tons. N.K.P.M.'s three concessions on Borneo produced only gas. B.P.M. diggings on Borneo and Tarakan Island produced 1,550,000 metric tons of crude oil.[20]

[17] Soren Listoe, consul general, Rotterdam, to State, *PDEI*, March 25, 1920.
[18] Jewell to State, *PDEI*, Jan. 27, 1920.
[19] Starret to State, *PDEI*, Feb. 10, 1922.
[20] *Ibid.*

In 1919 conditions in Indonesia were brought to the attention of the State Department, which had become sensitive to the fortunes of American oil companies in foreign areas. On May 31, 1919, American consular officers in foreign countries were requested to supply information regarding the nature of foreign petroleum laws. The State Department instructions asked for information regarding restrictions placed upon American petroleum companies. If there were restrictions, the consuls were to determine the form of these restrictions and the extent to which they were applied.[21]

In the following January, Jewell answered the request in a dispatch entitled "Mineral Oil Concessions in Netherlands India." The consul, after evaluating the development of Dutch petroleum policy in Indonesia since 1900, concluded that Dutch laws acted to the detriment of American petroleum interests in the way they were interpreted. The laws, he said, did not specifically exclude American interests, but could be interpreted and applied in such a way that American oil interests could not gain any sizable petroleum concessions. He regarded the New Mining Law of 1917 as a means by which the government could gain new petroleum fields without the expense of prospecting. Foreign, and, incidentally, American capital, Jewell continued, was left to operate under most disadvantageous conditions, while Dutch petroleum interests generally seemed to be in a favored position. Since the consul felt that the possibility of more favorable interpretations was nonexistent, he urged that the State Department seek an amendment to the New Mining Law.[22]

Jewell compared the conditions which companies had to meet in the United States and in Indonesia and found no similar restrictions upon Dutch-owned concerns in American fields, where Dutch-Shell possessed many producing properties. It was believed that one method of bringing about a reconsideration of Dutch petroleum policy would be to place restrictions upon Dutch-Shell holdings in the United States. This was one of the considerations behind the Oil and Mineral Land Leasing Bill, later known as the Public Land Leasing Act, which was introduced into the House of Representatives on March 18, 1919. As finally approved on February 1, 1920, the act provided that the Secretary of the Interior could withdraw mining rights on the public domain from the nationals of any country whose laws he deemed discriminatory against American petro-

[21] *Senate Document 272*, 67th Cong., 2d Sess., p. 30.
[22] Jewell to State, *PDEI*, Jan. 20, 1920.

leum interests. As it developed, the law was to have little bearing upon the oil situation in Indonesia as it only applied to six million acres of oil land and did not affect oil fields already under Dutch-Shell ownership. An ill-timed application of its restrictive provisions, moreover, was destined to render the law ineffective in the Indonesian dispute.[23]

The concern of the State Department for the fate of American oil interests in Indonesia was given an early test when the Dutch government reconsidered Dutch-Shell's bid for the Djambi concession late in 1920. The State Department was warned early in 1920 by Soren Listoe, the United States consul general at Rotterdam, of the existence of a new Djambi bill and the possibility of further debate in the Estates-General.[24] Listoe's communiqué prompted a letter to William Phillips, American minister to The Hague, instructing him to watch for further consideration of the Djambi concession bill and to influence the Dutch government to relax its restrictive interpretations of the New Mining Law.[25] Phillips met with J. H. van Karnebeek, the Minister for Foreign Affairs, on June 4, 1920, and asked several pointed questions about Dutch oil policy. Van Karnebeek, however, disclaimed more than a passing knowledge of the oil situation in Indonesia or of the Djambi concession bill. He repeatedly asserted that Dutch policy did not exclude American oil interests in favor of Dutch capital. Van Karnebeek said he welcomed foreign capital to the colony at any time if it was organized under Dutch control. He did not say whether N.K.P.M. was included in this statement. He explained that foreign capital could be admitted in no other way because colonial authorities feared some of the smaller islands of the archipelago would slip under Japanese control.

This fear of Japanese control was not without foundation. In the years following World War I there were increasing indications that the Japanese desired to gain a large foothold in the East Indian economy. During the war, articles appeared in the Japanese press pointing out the rich resources of the Dutch colony. Following the war, the drive to increase the Japanese navy, a request for equality for Japanese nationals in consideration for oil concessions, and the imperialistic ambitions which the Japanese expressed, all continued to create suspicion in the Dutch government as to Japan's inten-

[23] For a discussion of the controversies over Royal Dutch holdings in the United States see Kendall Beaton, *Enterprise in Oil, A History of Shell in the United States* (New York, 1957), pp. 226–234.

[24] Listoe to State, *PDEI*, March 25, 1920.

[25] State to Phillips, *PDEI*, April 24, 1920.

tions. A student of Japanese relations with Indonesia, M. A. Aziz, believes that Japan was prompted to allay these suspicions by extending the principles of the Four Power Treaty of December 13, 1921, to the Pacific possessions of the Netherlands because of the apprehension voiced by the Dutch.[26]

It cannot be determined from materials presently available whether fear of the Japanese was the primary reason for the exclusion of non-Dutch companies. British control of a large share of Royal Dutch-Shell indicates that the Dutch were not opposed in principle to allowing other national interests into a vital sector of the Indonesian economy. It appears likely that the primary objective was not to keep foreign-owned companies out, but to insure that the position of the Royal Dutch-Shell, a joint British-Dutch concern, would not be endangered or weakened. At no time during succeeding discussions between Phillips and van Karnebeek, did the foreign minister guarantee that American capital organized under Dutch control would be allowed into the Djambi concession. However, van Karnebeek frequently alluded to the possibility of American participation.[27]

Secretary of State Bainbridge Colby indicated his dissatisfaction with the Netherlands' government's attitude in personal instructions to Phillips on July 17, 1920. He said that the department felt the Dutch government had not accorded American citizens the same opportunity and freedom that had been given to Dutch citizens in the United States. Colby said the administration of the Public Land Leasing Act was handled by the Interior Department and that it was difficult to say whether it would be used to exclude Dutch citizens from the development of public lands. He was not prepared to predict the enactment of further legislation in the Congress or action by the State Department which would have a retaliatory effect on non-reciprocating countries. In the absence of such assurance, Colby told Phillips he could only indicate that strong public sentiment existed in the United States for retaliation against the Dutch and other non-reciprocating countries.

Phillips made little headway in his next meeting with van Karnebeek on July 22, as the foreign minister only repeated his reservations about the danger of admitting foreign capital. A new element appeared in the following month when a representative of the Sinclair Oil Corporation contacted Minister Phillips about the pos-

[26] M. A. Aziz, *Japan's Colonialism and Indonesia* (The Hague, 1955), pp. 99–100.
[27] Phillips to State, *PDEI*, June 5, 1920.

sibility of obtaining diplomatic support for a Sinclair application to a part of the Djambi concession. Van der Woude, the Sinclair representative, emphasized that his company considered Djambi the only important field in the Indies and desired any assistance which could be rendered by the legation.[28]

On September 15, the Sinclair official was presented to van Karnebeek and applied for a portion of the concession. The minister informed the oil company representative that the government intended to lay before the Second Chamber a proposal by which the government would contract with B.P.M. to develop the Djambi concession. This was the same bill, still pending in the Second Chamber, which Idenburg had introduced in 1917. In order to bring about a reconsideration, the government had to issue a memorial reply to an earlier report by the Second Chamber criticizing the bill's content. The larger part of the profits would probably be requisitioned by the government, van Karnebeek said. Even though a clause could be inserted in the law allowing for future participation of other companies, the foreign minister warned that nothing could be done at the time to permit the admission of foreign interests to the concession.

A few days later, Phillips called on an immediate subordinate of van Karnebeek's for some further details on the Djambi concession bill. The official told him that despite the assurances which van Karnebeek had given in the previous summer, that American capital was desired, and his publicized intention of permitting the future participation of Sinclair Oil, it was now the policy not to allow American participation.

Van Karnebeek's object in delaying but not rejecting Sinclair's application was temporarily to satisfy American petroleum interests and forestall positive action by the United States government until after the Djambi concession bill had passed its toughest hurdle, the Second Chamber. Phillips never really showed an understanding of the factors underlying Dutch petroleum policy. He could not perceive the role of the Royal Dutch-Shell, even though warned of the company's influence. In addition, he failed to grasp the internal political situation in the Netherlands and neglected to utilize the disagreement between extremes in the Second Chamber to further the cause of American oil companies.

As negotiations continued through October, it became evident that neither the Dutch government nor the Royal Dutch-Shell con-

[28] Phillips to State, *PDEI*, Aug. 27, 1920.

sidered allowing an American company to work a portion of the concession. The American minister then proceeded to seek an arrangement whereby the Dutch company would subcontract with an American company for the development of the concession. As Sinclair had been the only American company to state definitely to Phillips an interest in the Djambi, he laid the groundwork for negotiations between Sinclair officials and B.P.M. Jersey Standard, however, was attempting to obtain a share of the concession by another method.

W. T. Klaare, N.K.P.M.'s representative in the Netherlands, announced to Phillips that a representative of his company was planning a trip to Japan in October to discuss with the Japanese government and oil company officials the sale of his company. Klaare said the Standard subsidiary had given up all hopes of getting an adequate and profitable share of the Indonesian oil industry. He conveyed the attitude that there was nothing to be gained by Standard in Indonesia and that the company was no longer interested in Djambi. Phillips accepted the news at its face value and did not see any deeper motive in Klaare's announcement. The possible sale of N.K.P.M. to Japanese interests was also publicly announced in Indonesia.[29] The reason for the abrupt announcement, as it was later revealed, was to force the Dutch government to reconsider its policy toward Djambi and grant N.K.P.M. a share of the concession. Jersey Standard, well aware of the Dutch government's apprehension over possible Japanese economic and political infiltration in the archipelago, attempted to exploit this fear, without informing the State Department. It is possible that the company saw a better chance of gaining the Dutch government's attention by announcing its plans publicly rather than by working through the Department of State. Phillips, however, failed to understand the maneuver and assumed that the Standard Oil Company was, in fact, no longer interested in the Djambi concession.[30]

Early in November, van der Woude, Sinclair's Dutch representative, conferred with H. Colijn, the head of B.P.M., in London. Colijn was a former minister of war for the Netherlands and was to become premier for a short time in 1925. The interest of the Dutch government in the meeting was evident, van der Woude later reported to Phillips. The colonial minister, De Graaff, it had been rumored, did not wish to bring the name of an American

[29] Phillips to State, *PDEI*, Sept. 20, 1920.
[30] Phillips to State, *PDEI*, March 7, 1921.

company into the picture until after the bill had passed the Second Chamber. De Graaff had asked B.P.M. to delay the formal negotiations until after the bill had been acted upon by the lower house.

The colonial minister's reluctance to reveal the interest of an American company in the Djambi petroleum concession prior to the bill's consideration by the Second Chamber is important in several respects. Outwardly, the colonial minister let it be known that he feared for the safety of the bill, if it were known that he was friendly to American interests. De Graaff made several intimations that the Social Democratic members of the Second Chamber were unfriendly to the United States and, especially, to Jersey Standard. At the time it was not known to the United States, its diplomatic officers, or the oil companies that the colonial minister and van Karnebeek were engineering a most clever ruse. The ministers feared to publicize the American interest in the concession because, as they correctly guessed, the socialists of the Second Chamber, who had frequently expressed abhorrence at a further extension of Royal Dutch-Shell's influence in the Netherlands economy, would favor splitting the Djambi concession between B.P.M. and an American company if they could not gain direct state exploitation. Phillips did not see this aspect and, instead, followed a policy of keeping quiet American concern over the Djambi.

Meanwhile, Jersey Standard lost a possible strong competitor when Sinclair Oil withdrew its bid for a share of Djambi. On December 13, Phillips wrote the State Department that Harry F. Sinclair, president of the Sinclair Consolidated Oil Company, had arrived in Europe to conduct business with certain French petroleum companies. Sinclair and his Dutch representative, van der Woude, met with B.P.M. interests in London to discuss the possibility of a subcontractor's arrangement for a portion of the concession. Van der Woude reported to Phillips that Sinclair failed to take advantage of the headway which Phillips had made in gaining a share for American oil interests. Sinclair showed no interest in Djambi at the meeting, according to van der Woude's report. Sinclair had been briefed on the Djambi situation by his representative when both were in Paris. Sinclair was again briefed when he arrived in London. Despite the knowledge he acquired of the Djambi matter, he refused to take a positive course during the discussions and would not allow van der Woude to say that he wanted a share of the concession, only that he might be interested.

The attitude displayed by Sinclair may have played into the

hands of the B.P.M. representatives, according to van der Woude. When Sinclair received vague answers to queries as to whether the Dutch were going to allow an American company to participate in the concession he took this to mean that B.P.M. refused to consider the Sinclair application. The Dutch instantly seized upon Sinclair's disinterest and asked him if all he wanted was to obtain oil for American ships in that part of the world. When the oil company president admitted this the Dutch discussed an arrangement by which they would sell a certain quantity of Dutch oil to him for shipping fuel. At the conclusion of the meeting Sinclair told van der Woude that he thought the Dutch had misled the American minister to The Hague. The Netherlands, he believed, had never intended to admit American capital. Several months later, the minister was to learn that Sinclair was correct in his impression.

The second Djambi concession bill was reintroduced into the lower house in November, 1920. Between its introduction and January, 1921, the bill was under study by committees. The outcome of this study was the Provisional Report of the Second Chamber, a customary procedure to express the objections which various parties had to the measure. The report was designed to put a bill's proponents on the defensive either to justify the measure's various features or to revise the measure to suit the opposition. On January 14, 1921, the Second Chamber issued its provisional report debunking and berating the government for the method by which it was seeking to obtain the bill's passage. The report objected to the explanatory memorandum which accompanied the bill when it was reintroduced in November. The report objected to the statement that the government was in the petroleum business to make as much profit as possible for the state. The advantages gained by government exploitation, the report pointed out, did not lie in financial profit, but from the benefits gained by the consumers of low-priced petroleum. In addition, the opposition questioned the advisability of allowing what it called the continued expansion of the influence of large private companies in Indonesia. The Royal Dutch-Shell, the report said, was already too large and, as such, did not benefit the population. The opposition saw in the bill a renunciation of the idea of state control. The report interpreted the idea of a private company contracting with the government for exploitation as a denial of the socialistic type of administration which the Chamber had called for in its rejection of the first Djambi concession bill in 1915. By relegating the interests of the general public to a minor

role, the report said, the government had guaranteed a commanding position for the Royal Dutch-Shell.

Despite the serious objections raised by the opposition in the Provisional Report, the bill was destined to pass in the Second Chamber for lack of an acceptable alternative method of developing the concession. The opposition had no word of the interest of an American company until April, 1921. By this time, the bill was close to passage. Socialists later conjectured that they might have been able to form enough support to amend the bill to include American companies, had they known of American interest at an earlier date. Phillips did not publicize the negotiations until the bill was almost certain to be approved. Neither the Dutch government nor the American minister publicly disclosed the fact that there had been an interest expressed by the American government in the bill. Whatever news the Dutch legislators received of the negotiations came from American newspapers. In April, 1921, as the bill neared passage in the Second Chamber, the State Department released several letters which had been exchanged between the legation at The Hague and the Minister of Foreign Affairs. These disclosures came after bitter opposition in the Second Chamber to what was called secrecy in the handling of government affairs.

It is apparent that by April the State Department feared its policy of following the suggestions of the Dutch foreign minister had not been correct. Up to this time, the State Department had been pursuing a policy of attempting to gain a share of the concession through a subcontracting arrangement between an American company (N.K.P.M.) and B.P.M. As it grew more evident that B.P.M. would not enter into such a contract there was a discernible change in American foreign policy toward Indonesian petroleum. On April 12, 1921, Secretary of State Charles Evans Hughes telegraphed Phillips instructing him to work for the defeat of the Djambi bill if the concession were not divided and specific guarantees of adequate American participation were not included.

The change in American policy may be seen by the letter of April 19 from Phillips to van Karnebeek. Phillips reminded the foreign minister that several times in the previous year he had expressed the interest of the American government in the recognition of the principle of mutual or reciprocal accessibility to vital and natural resources in the United States. Phillips warned van Karnebeek that in the future the United States would have to modify its policy

of allowing nationals of non-reciprocating countries to participate in developing petroleum deposits in the United States. This would be prompted mainly by Dutch exclusionist policies and would most certainly restrict the activities of Dutch nationals in the United States.

Phillips further noted that the Dutch government had once given the impression that American petroleum interests would be allowed into the concession. He recalled the meeting of September 15, 1920, at which van Karnebeek had assured a representative of the Sinclair Consolidated Oil Company that he would seek a share of the concession for the American company. The failure of the foreign minister to make good this commitment, Phillips reminded him, has been a direct contradiction to the stated principle of reciprocity.

Van Karnebeek's reply of April 22 was equally strong. The foreign minister asked Phillips to inform the State Department that it would be inadvisable for the Dutch government to halt the scheduled debate on the bill to suit the American government. Van Karnebeek said the government could not change the Djambi concession bill because it had already verbally committed the development of Djambi to the B.P.M. The Royal Dutch-Shell subsidiary, the foreign minister said, had already been promised the concession long before the expression of interest by American capital. Van Karnebeek said he did not agree with the impression held by Phillips and the American government that the Djambi fields were the most valuable in Indonesia. There were many other undeveloped areas, he concluded, which were just as valuable in the colony.

Meanwhile, F. D. Asche, the vice president of Jersey Standard, arrived on April 21 in the Netherlands. His purpose was to file an application for a share of the concession. The date of his application became a debated point and it is not known why Asche waited so long to apply. Sinclair Consolidated Oil Company had applied for a share six months earlier. The N.K.P.M. application did not come until the bill was about to be debated in the Second Chamber. Debate opened on Tuesday, April 26. During the morning hours a preliminary vote on the bill showed 42 out of 50 members voting opposed to the government measure. Fifty members did not vote. Following the vote, Asche's application was read to the lower house. The N.K.P.M. letter was hailed by left-wing members as a reflection of the official policy of the United States government. A Communist member moved that van Karnebeek be present dur-

ing the debate to answer questions about official American interest in the bill. Thus, conditions seemed to favor the rejection of the measure.

Two events, however, turned most of the opposing members to support the government. The first event was the sudden departure of F. D. Asche for the United States. Without explanation, Asche left the Netherlands without waiting to answer the questions of the Second Chamber concerning Standard's interest in Djambi. This lessened Standard Oil's prestige with the Second Chamber.

The second event was the refusal of the American minister to show members of the Second Chamber any of the correspondence which had been exchanged between his legation and the Dutch government. The impact which the letters published by the State Department had on the Dutch legislators must have been great if their questions to Phillips are representative. On April 28 several members of the Second Chamber, who had been unable to receive official Dutch confirmation that the United States government was interested in obtaining a share of Djambi for an American company, called on Phillips to see the letters exchanged with the Dutch government. Phillips refused to allow them to see the documents, but volunteered to answer any questions concerning their content. The delegation answered that it was of the highest importance to see a few of the letters so they could report to their fellow members that there had actually been correspondence exchanged between the two governments. Phillips, however, declined to reveal the correspondence on the grounds that it would be injecting himself into the debate over the heads of the Dutch government.

Late in the morning of April 28, Albarde, the socialist who had been instrumental in the defeat of the first Djambi concession bill in 1915, introduced an amendment which called for a division of the concession between B.P.M. and N.K.P.M. The amendment was defeated by a vote of 43 to 37, with 20 members not voting. The amendment's defeat was followed by the passage of the Djambi concession bill by a vote of 49 to 30.[31] With the Second Chamber's vote, passage of the bill by the First Chamber was virtually assured owing to the limited powers of the upper house. On July 1, the First Chamber approved the measure, 28 to 27, after little debate. The last step was the signing of the bill by the Queen. This was accepted as a matter of course.

Two primary reasons for the passage of the bill in its original

[31] Phillips to State, *PDEI*, April 29, 1921.

state, Phillips complained to the State Department on April 29, was the late application by N.K.P.M. and the failure of Harry Sinclair to take advantage of what Phillips termed a "favorable situation created through diplomatic channels." [32] In view of the promise which the Dutch had already given to the Royal Dutch-Shell, some doubt exists about how "favorable" the situation really was. Phillips further stated that Standard's vice president, F. D. Asche, did not remain in The Hague to seek the passage of an amendment which might be introduced in his favor and had conveyed the general attitude that Jersey Standard was not greatly interested in the Djambi concession.[33]

The Djambi incident, as it has been called, in many ways represented a defeat for American diplomacy and for Jersey Standard. Nevertheless, one positive result was the interest evidenced on the part of the State Department in the fortunes of American oil interests in foreign countries. Despite the mishandling of policy during the Second Chamber's consideration of the bill and the lack of retaliatory moves against the Dutch for their restrictive policy, official American concern eventually had its effect upon the Netherlands. The Dutch government, seeing that its relations with the United States had been weakened by the passage of the bill, attempted to bring about a reconciliation by revising its petroleum policy.

Relations between the Netherlands and the United States were strained for three years after the approval of the bill. Minister Phillips was promoted to Undersecretary of State in the summer of 1922 and was succeeded at The Hague by Richard M. Tobin. Late in the presidential term of Warren G. Harding the Secretary of the Interior, Albert B. Fall, named the Netherlands a "non-reciprocating" country in accordance with the provisions of the Public Land Leasing Act of 1920. In 1922, the Secretary denied a Royal Dutch-Shell subsidiary a lease of federal lands in Wyoming and gave as a reason the discriminatory petroleum policies of the Netherlands. In effect, no petroleum companies owned by Dutch nationals were allowed to exploit lands in the public domain. In the following March, 1923, one month before the Teapot Dome controversy, Fall attempted to apply the non-reciprocity ban to cover Indian territories as well. His successor, Hubert Work, overruled this action as being beyond the scope of the Secretary's authority.[34] The non-

[32] *Ibid.*
[33] *Ibid.*
[34] Beaton, *ibid.*

reciprocity designation, however, was not removed for several years.

By 1925 it was evident that a change in policy was about to be made by the Dutch government. In the previous year, De Graaff, the minister of colonies, told American diplomatic officers that concessions in Atjeh province in northern Sumatra would be opened for public bidding in a matter of months. He indicated that N.K.P.M. would be allowed to bid on the concessions. Despite a subsequent delay by the Dutch, American diplomatic officers were confident by the beginning of 1925 that an American oil company would soon receive a sizable concession from the government.

The reason for what appears to be an abrupt change in Dutch petroleum policy was twofold. In mid-1922, N.K.P.M. struck a promising deposit in the Talang Akar region over 100 miles from Djambi in southern Sumatra. The Talang Akar concession was originally granted to the Royal Dutch-Shell and sold to N.K.P.M. as an unpromising site. The potential value of the concession was not immediately realized and, according to Gibb and Knowlton, it was only after several wells had been struck – one with an initial production of 2,000 barrels daily – that Talang Akar began to attract the attention of N.K.P.M.'s parent company, Jersey Standard.[35]

The second reason for the Dutch policy reversal is believed to have been the increasing evidence of Japanese interest in Indonesian mineral resources. The full story of Japanese economic foreign policy in the decade following the First World War remains to be told. In October, 1922, Japan's Marquis Ito paid an official visit to Indonesia, ostensibly to make a tour in the name of the imperial family. Six months later, the Netherlands suddenly received an offer by the Dai Nippon Oil Company of 2,000,000 guilders for a concession on the Celebes. Although the Ito Mission and the extension of the provisions of the Four Power Treaty of 1922 to Indonesia were intended to create a more friendly atmosphere for Japanese interests in Indonesia, the Dutch referred to them as thinly disguised attempts to acquire a sizable control of oil properties in the colony.[36]

In the early weeks of January, 1923, two representatives of Jersey Standard, Harry G. Seidel and Col. William A. Hoy, held a series of meetings with Colonial Minister De Graaff over the possibility of their company being given a concession of some value. It was

[35] George S. Gibb and Evelyn H. Knowlton, *The Resurgent Years, 1911–1927* (New York, 1956), p. 393.

[36] Hugh McCarthy, U. S. vice consul, Soerabaja, to State, *PDEI*, April 23, 1923. Charles Hoover, U. S. consul, Batavia, to State, *PDEI*, April 26, 1923.

during a meeting on January 10 that De Graaff said the Indonesian government was prepared to open new concessions in northern Sumatra and on Boenjoe, a small island off the northeast coast of Borneo. De Graaff reportedly asserted the Americans would be allowed to bid and receive a valuable concession in Indonesia. In a diplomat's appraisal of this meeting, Louis Sussdorff, the American Chargé D'Affaires at The Hague, said it was difficult to predict whether or not De Graaff intended to fulfill the various commitments he had made to the effect that concessions would soon be given to an American oil firm. "His previous reputation does not justify great confidence," Sussdorff wrote. "Amongst his East Indian associates he was known by the epithet 'Peter the Liar,' a nickname which many prominent Dutchmen think he well deserved."[37] Sussdorff, an able member of the diplomatic corps, soon found that his analysis of De Graaff was correct. No concessions were offered at the end of 1923. It was not until late 1924 that American legation officers learned that the Dutch were again going to offer N.K.P.M. a concession.

Sussdorff called on De Graaff on March 6, 1923, to express continued State Department interest in Dutch petroleum policy. The diplomat said that two new companies, the Pure Oil Company and Standard Oil of California, were interested in future Indonesian oil concessions. De Graaff replied that he welcomed the interest shown by the companies and noted that a survey "in which Royal Dutch-Shell did not have an interest" was being made by the Indonesian government with the hope that one or two concessions might be offered by the end of 1923.

As events occurred, this conciliatory meeting took place the same week in which Roxana, the Royal Dutch-Shell Subsidiary, was denied approval of its leases on Indian property by Secretary of the Interior Fall. On March 8, the flagship of the United States Asiatic Fleet, accompanied by a squadron of six destroyers, also arrived at Batavia. This was the first call of a tour which included Soerabaja and Macassar. The reason for the visit was not disclosed by the United States government, but it was received with some elation by the American diplomatic corps in The Hague and Batavia and is believed to have been arranged to coincide with efforts of the State Department to gain a foothold in the Indonesian oil industry.[38]

[37] Sussdorff to State, *PDEI*, March 6, 1923.
[38] Phillips, Undersecretary of State, to Sussdorff, *PDEI*, April 19, 1923.

On May 21, 1923, F. D. Asche, the vice president of Jersey Standard, wrote an alarmed letter to the State Department saying that the Royal Dutch-Shell had submitted a contract to the Dutch government covering the exploitation of the island of Boenjoe. After review in the Volksraad, the legislative assembly of the colony having only advisory powers, the contract would be sent to The Hague for approval, Asche said. The oil company official requested State Department support for his firm in an effort to thwart what he termed "an apparent attempt by the government to turn the area over to Royal Dutch-Shell without competitive bidding." [39] A week later, Asche wrote the State Department that his company had instructed H. G. Seidel, head of Standard's producing operations in Europe, to seek an interview with De Graaff. The purpose of the interview was to apply for a concession on Boenjoe in accordance with promises made in the previous January.[40]

On June 2 Asche informed the State Department that the Dutch government had undoubtedly entered into a contract with Royal Dutch-Shell and was seeking a formula to circumvent American criticism of the move. Undersecretary of State William Phillips, former American minister to The Hague, telegraphed Richard M. Tobin, his successor, at The Hague, with instructions to aid Seidel in any way that he deemed feasible.[41] It appears that Asche's report may have been the product of overanxiety and without foundation. Tobin replied on June 5 that Seidel's interview with De Graaff had indicated this was the case. De Graaff informed the oil company representative that the Royal Dutch-Shell had in truth submitted a bid for Boenjoe, but that the opening of the concession was not being considered at the time. The reason given for this was that the government had not completed its initial surveys of the island's potential. De Graaff also informed Seidel that in all probability there would be public bidding on two valuable concessions in Atjeh before the end of the calendar year 1923.[42] Asche persisted, however, and on June 5 wrote the State Department that based on verbal reports from his representatives in Indonesia he was even more certain that the Royal Dutch-Shell contract for Boenjoe had been secretly approved by the Volksraad and forwarded to The Hague for final action.[43]

In June, 1923, negotiations reached an impasse. After his meet-

[39] Asche to State, *PDEI*, May 21, 1923.
[40] Asche to State, *PDEI*, May 28, 1923.
[41] Phillips to Tobin, *PDEI*, June 2, 1923.
[42] Tobin to State, *PDEI*, June 5, 1923.
[43] Asche to State, *PDEI*, June 5, 1923.

ing with Seidel on June 5, De Graaff grew more vague with regard to the date on which any new fields would be put up for bidding. Within a month, Dutch policy had suddenly taken on the appearance of great caution in committing the government to open a concession. The reasons for this change cannot be immediately ascertained; but one can venture to guess that it was associated with American inquiries concerning the influence of Royal Dutch-Shell in the disposal of Boenjoe. After June, 1923, the prospects of an immediate opening of concessions dimmed. In September Francis Loomis, a representative of the Standard Oil Company in California, was rebuffed in an inquiry to De Graaff concerning a concession for his company. De Graaff told Loomis that no definite date had been set for the opening of any concessions in Indonesia, nullifying his promise earlier in the year that a concession would be opened for public bidding before the end of the year.[44]

In February, 1924, Sussdorff called upon Jonkheer Six, the head of the colonial mining department at The Hague, to inquire into the delay in the opening of Atjeh and Boenjoe to public bidding. De Graaff attended the meeting and acted as spokesman for the mining department head. He said there was little possibility that the remaining undeveloped fields in the colony would prove of value. De Graaff said B.P.M., the Royal Dutch-Shell subsidiary in Indonesia, had expressed discouragement over the reported lack of success in developing the Djambi concession and he added that pessimism was the general attitude among oil producers concerning the possibility of any further valuable concessions. It is believed, though not confirmed from available documents, that this statement was another effort by the Dutch government to discourage any American hopes of gaining a concession in Indonesia. It may also have been a way by which the Dutch hoped to excuse themselves from placing any concession up for public bidding in which the Japanese might participate.[45]

This static state of affairs persisted for almost another year. On January 14, 1925, De Graaff called in H. J. Seidel of Jersey Standard and Horstmann, the manager of N.K.P.M., to confer about the granting of a new concession by the government. The concession would be unique among concessions held by N.K.P.M. in that previous concessions had all been the outgrowth of permits purchased secondhand from other oil companies in Indonesia. The proposed

[44] Tobin to State, *PDEI*, Sept. 23, 1923.
[45] Sussdorff to State, *PDEI*, Feb. 27, 1924.

concession would be one of value and would be granted by the Dutch government through the Estates-General. De Graaff said he could not promise too large a concession since the terms of the bill had to be conditioned by the oncoming elections in the summer of 1925. A bill for too large a grant would produce acrimonious debate in the Estates-General, with a possible detrimental effect on the coalition of right-wing and moderate parties then in power. De Graaff advised N.K.P.M. to apply for a concession near Talang Akar, using as an excuse the need to round out present holdings. De Graaff said he would attempt to overcome opposition with the argument that the land was needed to lay pipelines and consolidate holdings. De Graaff said that if he was successful in gaining acceptance for the bill, the measure might set a precedent for the granting of a larger concession.[46]

Although he had planned to apply for a 1,000,000 hectare concession (about 2,500,000 acres), Seidel told Sussdorff that if Jersey Standard approved the proposal, he would apply for a 100,000 hectare concession, an amount he believed De Graaff would approve. Seidel revealed that De Graaff's plan was to have the company give the government a share of the profits on a graduated scale. This was a departure from the usual policy wherein the government usually took 50 per cent of the profits, as was the case with the Djambi concession. The profits shared by the government tentatively were to scale between 10 and 30 per cent. At no time was the amount to exceed 300,000 florins, no matter how much the gross profits were. De Graaff intimated that the government might even settle for a flat 20 per cent of the profits. Under the terms of its contract with B.P.M. to exploit Djambi, the government's maximum share could amount to 425,000 florins.[47]

On June 29, 1924, when De Graaff announced the conclusion of contract negotiations, the government's strategy in obtaining approval of the bill was confided to American diplomats. De Graaff had allowed for an American claim for 240,000 hectares to be included in the concession bill. These included two sites in the Talang Akar area totaling 180,000 hectares, 42,000 hectares on Java and 20,000 hectares on Madoera. By the terms of the final contract, the government was to receive a 20 per cent share of the profits and a 4 per cent land tax. In addition, N.K.P.M. agreed to select

[46] Sussdorff to State, *PDEI*, Jan. 16, 1925.
[47] Sussdorff to State, *PDEI*, Jan. 16, 1925.

at least 75 per cent of its employees from among the Dutch citizenry.[48]

Because of the elections and consequent fall of the new government, the concession bill was not submitted to the Indonesian Volksraad until January 10, 1926. Serious consideration of the bill was not given until the following April. As the Volksraad still had only advisory powers, its approval was only a formal step before submitting the measure to the Netherlands Estates-General. The government, however, made a determined effort to obtain unanimous approval by the Indonesian body in order to demonstrate its new friendly petroleum policy. On July 28, 1926, however, the Volksraad rejected the N.K.P.M. contract by a vote of 19 to 15.[49] The rejection of the contract was taken to mean that Royal Dutch-Shell influence was still strong in the colonial government. The government, however, advised Jersey Standard that the bill was rejected on the grounds that there was no provision for government participation in the management, placing the responsibility for the rejection upon socialist elements.

The Volksraad's action created a furor in both the Netherlands and the United States. One American official was even moved to declare that it constituted an act of discrimination against American oil interests and asked that added restrictions be placed upon Dutch-owned oil companies.[50] Dutch government officials also appeared upset over the Volksraad action. The rejection, officials thought, placed the government in a difficult position. The Ministry of Colonies had entered into an agreement for which it was bound to seek approval. Rejection by an assembly which included, in many cases, government officials and government-appointed members, placed the government in an embarrassing light with N.K.P.M. and the Estates-General. J. De Graaff, a pro-American governor-general of the colony, was reported to be enraged over the decision. The *Bataviaasch Nieuwsblad*, a leading Indonesian newspaper, called on De Graaff to temper his anger and not consider taking moves which would tend to degrade the Volksraad.[51]

The controversy died, however, when the Dutch government ignored the mandate of the Volksraad and carried out plans to introduce the contract to the Second Chamber of the Estates-General. In April, 1927, the contract proposals were submitted to the lower

[48] Tobin to State, *PDEI*, July 14, 1925.
[49] Hoover to State, *PDEI*, July 28, 1926.
[50] Leland Harrison, acting Secretary of State, to Hubert Work, the Secretary of the Interior, *PDEI*, Aug. 21, 1926.
[51] Hoover to State, *PDEI*, Oct. 16, 1926.

house as originally drawn up three years before.[52] As expected, a good deal of opposition came from left-wing elements in the Second Chamber. The nature of the bill, rather than the proposed concessionaire, was the chief objection of the Social Democrats and their allies. These representatives objected to the lack of government participation in the management of the concession's affairs and thought the maximum government share of profits was too low. It is evident from reports of the Second Chamber debate that the government was not to be deterred from its intention to create better relations with the United States, if that was its true intention. Several statements made to Minister Tobin by J. H. van Rojen, the Dutch minister to the United States, indicate the Netherlands was desirous of having the stigma of being a "non-reciprocating" country removed. On October 27, 1927, the bill was passed by the Second Chamber.[53]

Prior to consideration of the bill by the upper house, the Netherlands government became insistent that the United States issue a statement that the Netherlands was no longer considered a "non-reciprocating" country under the provisions of the Public Land Leasing Act. Such a guarantee was not forthcoming from the American government. The State Department said that authority to grant such a request was within the realm of the Department of the Interior. The Secretary of the Interior, Hubert Work, issued a statement that he did not consider the Netherlands a non-reciprocating country. Work's statement either did not satisfy the Dutch or was not communicated to the Netherlands government by the State Department. Prior to the First Chamber's approval of the N.K.P.M. contract proposals on February 8, 1928, State Department answers to Dutch requests for a statement that the Netherlands was no longer considered non-reciprocal were couched in vague terms. One is led to suspect that Secretary of State Frank B. Kellogg preferred withholding the statement until passage of the bill was assured. Secretary Work, meanwhile, continued to be at a loss over the continued Dutch requests for the statement. In an effort to reaffirm his position, Work wrote another letter to Kellogg on May 21, 1928, stating that his Department considered the Netherlands a reciprocal country under the terms of the Public Land Leasing Act. Three days prior to this, Kellogg wrote Tobin in confidence that while Work was willing to grant reciprocity status to

[52] Tobin to State, *PDEI*, April 9, 1927.
[53] Tobin to State (Telegram), *PDEI*, Oct. 28, 1927.

the Netherlands, the Department of State was not yet disposed to tell the Dutch government of this fact. Kellogg said that before informing the Netherlands of the Interior Secretary's position on reciprocity he wanted proof that the principle of equal opportunity would not be abandoned after the grant of one concession to N.K.P.M.

Kellogg apparently won his point, for the statement of reciprocity was not issued until the Minister of Colonies signed the contracts on July 17, 1928, and guaranteed that another concession would be granted to N.K.P.M. In December, the Ministry of Colonies approved a request by the Jersey Standard subsidiary for an additional 360,000 hectare concession consisting of lands in the Atjeh, Indragiri and Palembang districts of Sumatra and the Menado district in the northern part of Celebes Island.[54]

* * *

For almost thirty years, the Standard Oil Company of New Jersey was unsuccessful in bidding for oil concessions in Indonesia. Throughout a greater part of this period, Jersey Standard operated without the benefit of close support by the Department of State. When the State Department finally championed the efforts of the American company to gain a profitable concession, this was done with a view to improving the position of the United States in relation to over-all world petroleum resources. The question of oil colored American-Dutch diplomatic relations from 1920 until 1928, when the Netherlands was finally considered a "reciprocal" country by virtue of its own revised domestic petroleum policy.

The revision of Dutch oil policy may be attributed to three factors: a reaction to unfavorable publicity surrounding the Djambi concession; apprehension of being declared a "non-reciprocal" country under the terms of the United States Public Land Leasing Act; and discovery of oil in sizable quantities by Jersey Standard at Talang Akar.

State Department correspondence indicates that the Dutch government was unhappy over the results of publicity surrounding its policy and actions in the Djambi Incident. Although the government coalition of right-wing and moderate parties stood little actual chance of being deposed, such publicity could possibly have the effect of reducing the coalition's majority in the Estates-General. The discovery of oil on what was formerly considered a worthless concession afforded the Dutch government an easy method of

[54] Henry R. Norweb, Chargé D'Affaires, The Hague, to State, *PDEI*, Dec. 17, 1928.

avoiding whatever commitments it may have had with the Royal Dutch-Shell. By stating that it was "rounding out" existing N.K.P.M. holdings, the Netherlands was less likely to offend the British-Dutch group, while, at the same time, improving its relations with the American government. Finally, the power given the Secretary of the Interior to exclude companies owned by the nationals of "non-reciprocating" countries under the terms of the Public Land Leasing Act was a potent weapon in the hands of the State Department. The curious aspect of the "non-reciprocity" declaration is that it had little direct effect upon Royal Dutch-Shell holdings in the United States. As described earlier, Secretary Fall's ban on Indian territory concessions was ruled illegal by Secretary Work, his successor, and the Federal domain actually constituted only a small part of the oil-producing area of the country.

The modification of Dutch petroleum policy in 1928 was not a temporary move. Jersey Standard, as well as other American oil companies, was allowed to exploit Indonesian oil concessions on an equal basis with the Royal Dutch-Shell, even though the latter continued to control a great majority of the colony's oil resources and production.

The real effect of the concession grant to N.K.P.M. in 1928 can best be told in terms of comparative production figures. The conditions of concession-holding as defined under the N.K.P.M. agreement prevailed in subsequent agreements between the Netherlands and private oil companies. The comparatively liberal terms, such as the progressive rate of profit-sharing and the lower government share of the royalties, may have been a reason for the rapid expansion of the oil industry in the subsequent decade. In 1924, the last year that concessions were granted under the Mining Law of 1917, there were 119 oil concessions in Indonesia amounting to 2,500 square miles. Jersey Standard accounted for 5 per cent of the total production, while B.P.M. produced the remainder. By World War II, the area held by various companies amounted to 9,000 square miles. This was shared by B.P.M., N.K.P.M., and a company which was jointly owned by Standard Oil of California and the Texas Oil Company. In 1939, the Royal Dutch-Shell subsidiary produced 72 per cent of the total Indonesian oil output. American interests accounted for the remaining 28 per cent, tangible evidence of importance of the new Indonesian oil policy instituted by the Netherlands in the late 1920's.[55]

[55] Wallace E. Pratt and Dorothy Good, *World Geography of Petroleum* (Princeton, 1950), pp. 279–281.

BOOK REVIEWS

Northwestern Mutual Life: A Century of Trusteeship. By Harold F. Williamson and Orange A. Smalley. Evanston, Ill., Northwestern University Press, 1957. Pp. 368. $7.50.

"The next morning [March 8, 1858] the new officers left Janesville for Milwaukee, carrying all of the assets and records of the Mutual Life Insurance Company of Wisconsin in a small black leather-covered trunk" (p. 12). Thus do the authors of the most comprehensive history of an American life insurance company published to date picture the humble beginnings of the Northwestern Mutual Life Insurance Company, a name that the firm assumed in 1865. Harold F. Williamson and Orange A. Smalley conceive their task of preparing an account of a century of this giant's history in terms of "entrepreneurship in action; a description and analysis of the major managerial decisions that have primarily affected the evolution of the Northwestern Mutual over the space of a century."

Largely based on voluminous and unusually complete records in the company depositories, this study is an exhaustive recital of the application of the principle of trusteeship to the everyday operations of one of the leading American life insurance companies. In these endeavors, Northwestern was fortunate in having an executive committee of trustees which, along with other competently staffed committees, has made for successful administration.

In addition to its strong administrative setup, the company has been distinguished for its simplicity of operations, its limited number of policy contracts, its preferred risk underwriting methods, and its competition with other life insurance companies on the basis of low net cost. In connection with its self-imposed limitations on the nature of the risks to be covered, the authors point to the fact that the firm still carefully avoids certain fields of insurance, such as industrial, accident and health, and group insurance. Northwestern has been conservative (perhaps to a fault) in its basic approach and philosophy. Mindful as it has always been of its vast obligations to the policyholder, it stresses safety and utilizes a highly trained staff in its manifold and far-flung operations.

The volume deals with two broad categories, one concerned with underwriting and marketing operations, the other with the investment of funds entrusted to the company by its policyholders. The history embraces five major time periods: 1857–1873; 1874–1907; 1908–1932; 1933–1946; and 1947–1956. On both of the above-mentioned broad categories, the authors supply a wealth of information and relate them to basic social and economic trends of the respective periods covered. In addition, there is a masterly evaluation of the performance of the company in the various periods which illuminate the economics of life insurance in refreshing detail. The comprehensive charts and tables illustrate the text admirably.

The propulsive thrust of competition launched life insurance on its

rapid upward path to success. Competition made for growth, expansion, and increased benefits for the policyholders. It helped to rid the business of "weak sisters," and sped the elimination of hobbling restrictions and impediments. Viewed from another angle, however, the cutthroat competition of the period prior to the Armstrong Investigation of 1905 threatened to spell disaster for the industry as a whole. It led to insurance evils and shook the confidence of the American public in the institution of life insurance.

Competition, both in its beneficent and its maleficent effects, is traced in the experience of the Northwestern Mutual. In this connection, the spur of competition was a key factor in the business decisions of top management. The firm had to slough off economic fat and develop lean muscle to adjust to the fierce competition characterizing the latter part of the nineteenth century.

A highly interesting feature of the work is the discussion of the agent and his role in marketing. No other study of a life insurance company has the wealth of information and the painstaking analysis contained in this volume on the role of the agent, his training and development, how he was remunerated in various periods, his problems, experiences, and contributions. The genesis and development of the Northwestern general agency system are clearly described. While top management made the basic business decisions, the agent and his organizations within the company not a few times were the catalytic forces making for progress. The ultraconservatism of the firm – some less kindly disposed critics might term it timidity – held it back in the frenetic struggle for sales volume. It has only been within the past decade that the company has experimented with types of policies, and only after continuous pressure and agitation by the agents.

While the volume describes the formation and activities of agents' associations within the company, it is unfortunate that the authors do not discuss, except in a few isolated instances, the ties of the agents with trade associations, such as the National Association of Life Underwriters. There is every reason to suppose that Northwestern agents were keenly interested in the activities of agents of other life insurance companies, whether from the viewpoint of competition or from that of cooperating with them to protect common trade interests.

As in the case of other large companies, the investment policies of Northwestern have been characterized by their emphasis on safety and by their resiliency in helping to meet the changing investment needs of the economy. The conscientious application of the principle of trusteeship in the domain of investment was of primary importance in ensuring safety. Not to be overlooked, however, are the legislation and regulatory requirements, which have also been important factors making for safety.

Responding to the needs of the growing population centers of the midwest and helping to build them up, Northwestern was the first American life insurance company to grant farm loans, in this case to the hardy toilers of the fields and prairies of the midwest. The authors provide a detailed picture of the vicissitudes of the investment policies of the firm

and relate them to broad social and economic trends in the American economy. The process of making investment decisions in various periods is clearly detailed. The machinery and organizational changes designed to ensure correct investment decisions are skillfully portrayed.

The topics that the work discusses are exhaustively analyzed and dissected. There is a breadth of treatment that points up the scholarly approach of the authors. Nevertheless, at the risk of being considered captious, this reviewer must point to the inadequate exploration of certain valuable sources for a history of a life insurance company. Trade periodicals are only occasionally cited by the authors. Adequate research in these periodicals would have thrown further light on the impact of the actions of Northwestern on their competitors and vice versa. Another source of information, which might have been studied more intensively, is the existing collection of life insurance company histories. Focusing primarily on the experiences of the firm is quite justified. Adequate study of life insurance histories would, however, have made for better perspective on the role and achievements of the Northwestern.

Viewed in its entirety, the work is a distinguished addition to the ranks of American life insurance company histories. It is an illuminating analytical study of the evolution of a giant life insurance company. A close reading of the volume is both an enjoyable and rewarding experience. It is "must" reading for the business historian.

Harris Proschansky

Bronx, New York

° ° °

Organized Business in France. By Henry W. Ehrmann. Princeton, Princeton University Press, 1957. Pp. vii + 514. $7.50.

Professor Ehrmann originally planned this book as a companion study to his earlier volume *French Labor from Popular Front to Liberation.* At that time he intended to examine the political effectiveness of organized business in the period of the demise of the Third Republic. The turn of events in France, however, made Professor Ehrmann expand his initial purpose so that the present volume is no longer a study of industrial relations, but rather "an inquiry into the activities of the French business lobby." Just as the political processes of the United States can be made more comprehensible by a study of the interest groups trying to effect them, so an examination of the efforts of French organized business to control or to influence the political processes of their country yields a deeper insight.

This book has three major sections. The first part is the historical treatment of the organized business movement from the Matignon settlement of June, 1936, to the early months of the liberation of France. Under the pressure of the 1936 labor strikes the original employers' organization known as the *Confédération Générale de la Production Française* (CGPF) showed its defects and crumbled. While large seg-

ments of the business world had been organized, the multiplicity of such organizations showed little or no unity against the major onslaught of organized labor. After the surrender to labor at Matignon some industrial combinations, such as the textile federation, withdrew from the CGPF while still others chose to disregard the peak organization and to act upon their own initiative but continued their association with the confederation. The prospect of the employer organizations disintegrating at the moment when organized labor was growing in numbers and unity made the employers realize that a thorough overhauling of the structure, personnel, and ideologies of the organizations they had formed to protect their interests was necessary.

The transformation of the French employers' organization took place along two major lines: shortly after the Matignon agreement the bylaws, structure, and personnel of the CGPF were revised. The General Council, formerly big-business-dominated, was now expanded so as to give the medium size and small firms of commerce and industry a greater voice in running the organization. The second line of transformation was an attempt to reassess the basic tenets of a business philosophy. The consensus of opinion was that the economic liberalism of the old CGPF was outdated, and their new ideology was strongly tinged with the philosophy of corporatism.

The defeat of France in 1940 saw many businessmen turning to the support of the Vichy government; a black mark that they were going to find very difficult to live down after the Liberation. Professor Ehrmann suggests that this support of the new government of France was not motivated by any affinity to the theories and practices of Nazism. Their strong feelings for corporatism, combined with the belief that the Republic had failed to consider the interests of French industry, made them look upon Vichy with some favor. The new government, they felt, was more favorable to their own economic concepts. During this Vichy period there was an acceleration of the movement for the amalgamation of upper level bureaucrats and the business organization leaders. This type of association has led to the claim that there was a widespread conspiracy by a group called the "Synarchy." Professor Ehrmann concludes that the Synarchy was "tantamount to an 'objective' plot: not deliberate scheming, but a common mentality; not identical goals, but similar objectives, suggested by analogous experiences and by their agreement on what the situation held for their country. Their philosophy, if philosophy there was, had been described long before the war as 'industrialism,' a belief that politics ought to be subordinated to the point of view of the producer."

The failure to put these events in a proper historical background detracts somewhat from this portion of the work. A clearer picture of the economic dislocation caused by the complete defeat of the French would have provided a causal nexus for Professor Ehrmann's interpretation of the factors which motivated businessmen to embrace the Vichy government so firmly and quickly. Granted that sociological and psychological factors are important, their true significance appears most distinctly when the historical events which activate these elements are

explained. The fact that many of the leading French businessmen had corporatist ideas certainly goes a long way towards explaining their collaboration with Vichy, but it should be noted that this government in its later stages was indulging in *attentisme* rather than true fascism and so appeared to follow, rather than actually practice, the corporatist theory. The growing breach between Vichy and organized business which might thus have been explained is never satisfactorily accounted for by Professor Ehrmann.

Part two of the book is a description of the various present-day industrial and commercial business movements with particular attention being paid to the peak organization, the *Conseil National du Patronat Français* (CNPF). The political activities of the various employer organizations are also examined in this section. The final section of the volume is concerned with the attitudes and policies of organized business upon certain basic economic issues, i.e., economic planning, taxation, nationalization, and industrial relations.

The first months of the Liberation were very difficult for the employers and organized business. The average Frenchman regarded them as having been collaborators with the enemy. The early enactments of the provisional government left no doubt that they were being treated as pariahs. It was in this atmosphere of distrust that the employers' organizations were reconstituted. They tried to achieve a better balance between small, medium, and large business. The horizontal and vertical organizations were much tighter than previously. Nevertheless there still persisted a great weakness, in that large and small business organizations took different stands upon certain basic issues, and thus the peak organization could not commit itself to developing anything but a most rudimentary business philosophy. The development of such a philosophy has therefore fallen to modest groups of small businessmen such as the *Centre des Jeunes Patrons* (CJP) which are connected in varying degrees with the general employers' movement.

French business has been particularly negligent in trying to influence public opinion, but it has chosen to bring its power to bear on elections, parties, the legislative process, and especially the bureaucracy. The wisdom of this attack is clearly shown by its success in the postwar period. Despite its inability to formulate a basic ideological framework behind which all could unite, French business has been remarkably effective in its political activities even when its approach has been detrimental to the ultimate national interest. The economic conservatism of the French businessman has prevented the nation from taking full advantage of new technology. It is true that there are voices calling for a modernization of French industry, but in general the major trade associations and the CNPF are the hostages of business "unity." They have refused to use statistical methods, and by clinging to the pattern of small business have prevented higher productivity and lower costs of production which would improve the living standards of the people.

This study of the activities of French employers' associations as an organized business lobby breaks new ground. It is the first serious appraisal of an employers' movement in France. While this alone is suf-

ficient to recommend the volume, the fact that it goes beyond its stated aim by presenting thoughtful insights into the mentality and character of the French businessman makes this work that much more valuable. By presenting their conflicts, hopes, fears and problems, the author goes a long way in helping the reader to understand current French economic history. Professor Ehrmann's book will be of the utmost interest to all students of French business.

JUDAH ADELSON

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* * *

Histoire des Institutions D'Assurance en France. By P. J. Richard. Paris, Editions de L'Argus, 1956. Pp. 333.

Distinguished for his works on actuarial science and having over 50 years' experience in the insurance field, P. J. Richard has witnessed a substantial portion of the history that he describes so well in this account of the evolution of French insurance institutions. His task is indeed an herculean one. To attempt to write a history of all phases of French insurance requires courage of a type that M. Richard possesses in full measure.

The main thesis of the volume is that insurance in modern life will play an increasingly important role. It is the author's contention that there is no limit to the development of insurance, just as there are no metes and bounds to the discoveries in science. Indeed, the new machines, devices, gadgets, sources of energy, such as atomic power, for example, and the other products of our age of science all add to the dangers encompassing man and his works. Insurance as an institution is continually adapting itself to the needs of individuals and social groups, an adaptation which the author views as resulting in the improvement of the material and moral conditions of life. The development of insurance of every type, a factor in human progress, is thus part and parcel of the steady growth of commerce and industry. The degree to which a society exhibits concern over ways and means to diminish and prevent, if possible, as well as compensate for risks which threaten either the person or property or both mark the level of its civilization.

The author proves his point in his description of the evolution of various phases of insurance in France, whether it be maritime, fire, life, accident, etc. His work is crammed with information on various developments in these areas. Along with details on the ebb and flow of companies in the various fields and the problems they encountered, he describes the important legislative acts of regulation that so significantly influenced French insurance developments. He also attempts to relate these insurance developments to various political, social, and economic trends on the French and world scene. M. Richard has no illusions that French insurance institutions can go it alone. He demonstrates that there is an international market for insurance and reassurance. Foreign com-

panies, including American, have played a significant role in Gallic insurance developments through the impact of their branch establishments in France. By the same token, French insurance companies have branch agencies in many countries throughout the world.

M. Richard notes that there is not a branch of business in which there have been so many ephemeral creations as in that of insurance. Like certain moths that disport themselves in the world for a short period of time and then expire, many French insurance firms have existed for brief periods and then disappeared. The author lists them in such detail that the reader gets the uncomfortable feeling at times that he is perusing a catalogue rather than an historical work. In large part, this could well have been excised. Nevertheless, the observations of the author on business births and deaths and the reasons for the continual process of formation and dissolution of these firms are illuminating. He makes the point, and certainly this is true from the experience of American insurance companies, that new firms often failed to profit from the experience of earlier ones in a particular field. This was one cause for failure. More important was the cutthroat competition that often spelled disaster for the newer and less well-established firms, especially in periods of depression. There has been a gradual replacement of competition in premium or tariff rates by competition manifested by liberalization of the policy in one or more respects.

The work of syndicates in French insurance life has been quite similar to that of American and English trade associations. Playing an important role in watching and influencing legislation, for at least the past half century French insurance syndicates have fought against proposals for nationalization of various branches of insurance. They also have combated measures calling for onerous taxation. The fire insurance industry has been especially heavily taxed. Other functions of the syndicates have been to foster adoption by its members of adequate premiums, rates, or tariffs, abate or eliminate marketing and other abuses among both the agents and the companies (such as the payment of excessive commissions to agents and brokers), gather common statistics of use to all of their members, speed the growth of educational institutions and courses devoted to insurance, and in general protect the interests of their members and promote their efficiency and well-being. Syndicates have also been active in campaigns emphasizing the need for prevention as well as compensation for risks. It is no surprise that they have been very active in promoting institutional advertising. They planned and executed measures both of offense and defense against the competition of foreign companies operating in France. In addition, more so than American and English trade associations, they put into effect projects designed to assist employees of insurance companies.

French insurance employees, on the whole, have been very well treated. Even though the approach was a paternalistic one, insurance companies could boast of various conveniences for their employees, including a 36-hour week as early as the last decade of the nineteenth century. French insurance companies had a widespread system of pensions for their employees, much earlier than their American counterpart.

The law of December 27, 1895, set rigid requirements for the investment of funds contributed under pension plans set up by individual employers or by syndicates. In this respect, perhaps the United States could study French experience in devising legislation safeguarding both employer and union welfare and pension funds against manipulation, corruption, and other abuses.

Self-regulation in the shape of syndicates could not halt the growth of government supervision. Because of the frequent failures of insurance institutions, especially in the earlier stages of an industry or in depressed times, government regulation of French insurance grew steadily. Regulation has reached the stage where France imposed nationalization on certain segments of the insurance industry. Since 1947 the workmen's compensation branch has operated under nationalization. It is regrettable, however, that the author has failed to describe and evaluate French experience with nationalization.

Marketing is of such crucial importance in insurance of any kind that it is indeed unfortunate that the author has failed to give details as to the difficulties faced by the agent, his rates of commission, the growth of the marketing organization, the growing liberalization of the insurance contract, and the change in attitude of the public to both companies and agents. Although he refers to associations formed by general agents, agents, and brokers, a fuller description of the activities of these organizations would have been profitable.

The author's failure to annotate his material, except in rare instances, and to provide a bibliography are disappointing to the business historian interested in doing further research in this highly rewarding field. His rich experience in the insurance industry would have placed him in a very advantageous position to indicate and evaluate the research that has already been done on the French insurance past.

This history is a well-written, comprehensive account of a major French industry. It can be of use to the business historian in providing the main outlines and trends of this industry. It should certainly inspire researchers to do further exploration in attempts to illuminate some of the darker passages in the French insurance past. Students of American insurance developments can profit from the fruitful parallels and deep insights that the work provides in abundant measure.

HARRIS PROSCHANSKY

Bronx, New York

* * *

The American Stockholder. By J. A. Livingston. Philadelphia, J. B. Lippincott Company, 1958. Pp. 290. $4.95.

This short and lively book is a stinging solvent of corporate cant and business piety by a man who has been around. J. A. Livingston, ex-Economist of *Business Week* and Public Utilities Editor of *The Financial World*, is now Financial Editor of the *Philadelphia Bulletin* and author

of the syndicated column (about 60 papers), "The Business Outlook."

"The stockholder's character," Livingston writes, "has changed fundamentally from what it was one hundred and more years ago, in the early days of the corporation, when he was owner, operator, and active participant in the business. That change – the analysis of stockholders' mid-twentieth-century character – is what this book is about." Actually, Livingston's book is less concerned with the character of today's stockholders than with Corporate Society in which he is a pawn and Corporate Management which manipulates him. And that is all to the good. Livingston, moreover, writes from the healthy viewpoint that figures often lie, that Sunday clothes are no warrantee of ethics, that it is wise to look longest at propositions presented over names that "radiate rectitude."

Nor is he shy about asking such questions as: Is it corporate Good Citizenship for Management to over-compensate itself, and by tax-dodging schemes in the bargain? Does the New York Stock Exchange have elastic rules which stretch for giant flotations like that of the Ford Motor Company in 1956 and shrink for lesser fry? Is it ethical for giant corporations like Humble Oil, A & P, Weyerhaeuser Timber and others to evade "full disclosure" under SEC rules simply by not listing their securities on a stock exchange – even though they may be freely traded "over the counter," and possibly by management insiders, a practice thoroughly hedged in where the SEC's "light does shine"? Is it Socially Responsible for high-leverage institutional investors to pass the buck to the unwary by selling out of companies whose management has become suspect? Or should they not, rather, use their great leverage to propose and even demand reform? Livingston not only asks such questions but supplies the obvious and proper answers.

There is considerable information in this volume on the age, sex, occupation, income, individual holdings, and other characteristics of the 8,600,000 American stockholders, including their rights, powers, privileges, and preoccupations. Livingston also devotes entire chapters to Annual Meetings, Annual Reports, Stock Exchanges, the SEC. Illuminating events like the Ford stock sale and the New York Central proxy fight are analyzed in detail and with some historical depth. Neutral – yet not so neutral – agents like professional security analysts and certified public accountants are carefully examined. "Professional" minority stockholders like the notorious Clarence H. Venner and the influential Lewis Gilbert as well as shady stockholder associations receive appropriate treatment. Much of this bread and butter material can be found elsewhere more or less readily. Livingston's presentation has the virtues of succinctness, simplicity, and relevance, all leavened with knowledgeability.

Historians need not be overly concerned with the persistence here of the fond notion that separation of ownership from control hardly antedates Berle and Means, that stockholders once had more power than they have now. The important thing about the old days is that the corporation was relatively rare; the important thing today is that the giant corporation not only dominates the economy but much of the rest of

American society as well. Livingston makes it perfectly plain that the stock exchanges, especially the New York Stock Exchange, have in some respects raised the ethical level of corporate life; that the government, especially the SEC, has raised this level considerably higher still. Yet, as the title of his concluding chapter – "The Corporation Versus the U. S. A." – makes clear, he is aware of the nondemocratic nature of corporate power, and concerned over the eternal vigilance needed to contain it.

This is a disenchanted book, but a salutary one. It offers institutional as well as moral perspectives, and for these, even though Livingston is no historian, historians are in his debt.

WILLIAM MILLER

Ridgefield, Conn.

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Kilowatts at Work, A History of The Detroit Edison Company. By Raymond C. Miller. Detroit, Wayne State University Press, 1958. Pp. xvi + 467. $7.50.

Let There Be Light, The Electric Utility Industry in Wisconsin, 1881–1955. By Forrest McDonald. Madison, The American History Research Center, 1957. Pp. viii + 404. $5.95.

The appearance of these two significant volumes, written by competent historians with free access to company records, is evidence that the electric utility industry has come of age. The lusty infant, born in an era of gaslights and horsecars, soon pushed both aside, but experienced sharp growing pains caused by rapid technological change. The struggle between arc-lights and incandescent lamps, and of A.C. versus D.C., are among the dramatic episodes of its formative years during which engineers and manufacturers of electrical equipment were the central figures. Meanwhile, much had to be learned about the economics of the new industry and its place in society.

Here, too, advancing technology set the stage. The maximum size of generator units using low-speed steam engines was reached in 1903, with a top capacity of about 3,000 kilowatts. The area served was limited to a small radius about the power plant. The new turbo-generators with virtually limitless capacity, plus high-voltage transmission, made it feasible to serve a vast market from a single strategically located generating station, and precipitated an era of promotional activity in which weaker units were absorbed by the strong into integrated, efficient systems. Strong firms were those in a position to command the capital resources requisite for expansion, and whose leaders were alive to the advantages of integration. After the turbulent 1920's the industry moved into a stage of coordination and planning in the twilight zone between private volition and government compulsion. Electric utility firms became well-established, vital institutions and abundance of electricity a major factor in transforming our economy and society.

The two strong charges of electricity under review illuminate the broad current of events with much authentic detail. The authors maintain their objectivity and independence of judgment although their research was indirectly financed by the industry. Mr. Miller, as biographer of the Detroit Edison Company, excusably identifies himself a little too intimately with his subject. Mr. McDonald is perhaps overzealous in defending Wisconsin utilities against progressive politicians and public power proponents of the past. But by exposing their manuscripts to critical reading by historians of repute and by means of other safeguards the authors strove to correct any tendency toward distortion. They were free to interpret the facts as they saw them, and from the substantial evidence presented it is apparent that a careful look inside the electrical utility industry was long overdue.

McDonald's findings concerning the role of Samuel Insull place this stormy petrel of the utilities world in a favorable light. The formation of the Middle West Utilities Company in 1912 was the outcome of a successful experiment in Lake County, Illinois, to interconnect a large number of small communities and serve them from a single power source, during which Insull improved and extended service, slashed rates, reduced fixed and operating costs, and also earned dividends. In duplicating this process in the many other non-metropolitan areas then inadequately served by existing facilities for generating and distributing electricity, the holding company played an essential role. It supplied capital and also the highest caliber managerial and engineering skill. McDonald is convinced that, regardless of their other shortcomings, only through the constructive use of holding companies was it possible to muster the tremendous capital required to develop large, modern utility systems, capable of providing full-time, reliable, low-cost service everywhere and in the shortest possible time. The fact that every dividend check made out by the Insull operating company in central Wisconsin to the holding company parent in Chicago "was simply endorsed and returned for re-investment in new stock for further expansion, and no cash actually left the state" (p. 243) is certainly evidence of constructive policy.

Aside from the more flagrant examples of questionable financing, the usual practice of utility companies of issuing a small amount of common stock (usually 30 per cent), with the balance of their capital in the form of bonds and non-voting preferred stock, seems anything but conservative. Among the few exceptions were certain utility companies organized originally by wealthy Wisconsin lumbermen who issued no bonds and almost no stock, but financed the ventures from their own funds. In time these enterprises, in common with other private and municipally-owned local systems, were sold to giants in the industry, often at prices far beyond their reasonable worth. Obsolete physical plant might be scrapped immediately after the purchase. The important "intangible assets" were the franchise and the so-called diversity and load factors which would add to the over-all operating efficiency of the larger system.

Of special interest are the conclusions of both authors with regard to the R.E.A. In Michigan and Wisconsin, rural electrification was al-

ready well under way by 1935 when the New Deal measure was enacted. McDonald concludes that the R.E.A. not only failed to hasten, but may have retarded, the bringing of electricity to Wisconsin farms. During the preceding decade the industry had made strenuous efforts to solve the many technical and economic problems involved in rural electrification, and cooperated fully in making its know-how available to the R.E.A., which at first appeared in the guise of an ally, and then as a competitor.

The irrational hatred of utilities, which periodically flared up, startled and humiliated high-principled utility men like Alex Dow, head of Detroit Edison from 1896 until 1940. Public relations were at their worst during periods of rapid consolidation. Competition was the accepted method by which the consumer's interest was protected. Naturally, a situation which presaged monopoly was considered dangerous. Time alone proved that in the electric utility field, monopoly was desirable from an economic standpoint and that regulatory commissions and public confidence in the integrity of the company were adequate substitutes for competition. In Wisconsin, where the pioneer regulatory commission dates from 1907, and also in Michigan, leading utility men favored regulation on a state level over anachronistic municipal ordinances and franchises. Both states have a long record of amicable working relations between the regulatory body and the industry.

Professor Miller flounders in explaining Dow's intense devotion to the company as a sublimation of youthful reformist impulses. His was simply the rationale of the professional manager who develops an affinity or allegiance to his firm not unlike the attachment to Church, State, or Family, within which he finds creative satisfactions beyond price. Career men, who identified themselves with the company, identified the company's function with public service, and held up high standards of conduct, appeared relatively early in railroads and in electric utilities.

In tracing the early history and background of the industry, the authors' respective tasks were made easier by reference to the splendid analysis by Harold C. Passer (*The Electrical Manufacturers, 1875–1900*, Harvard University Press, Cambridge, 1953). Building on this sound foundation and adding material of their own they carry the story to the present. Unlike Passer, however, they concentrate their attention on the central station, where the energy in coal or water power is converted to electrical energy and transported to the users. In 1905, Detroit Edison used 3.75 lbs. of coal to produce one kilowatt of electrical energy; by 1939, less than one pound of coal was required. This fact alone testifies to a remarkable engineering achievement. The Detroit firm consistently adopted proved methods and let others take the risks of innovation. It followed conventional business policies, but became exceptionally alert in seizing opportunities for expansion and thwarting encroachments from competing giants. Its financial position was sound, except for two crises, in 1907 and in the early 1920's. The firm received a minimum of direction from its parent, the North American holding company. Mr. Miller goes to some length to convince the reader that

the Detroit management enjoyed the utmost autonomy. The fact that the author supplies meager information concerning Henry Villard, John I. Beggs, and the nebulous "financial wizard," Harrison Williams, all of whom at various times dominated the North American Company's board of directors, or of the relationship between the operating company and its superstructure of holding companies, lends a certain credence to his contention.

Everything considered, the Detroit Edison history is a well-balanced, comprehensive work, written with a sure hand. Significant events and generalizations might have been focused in sharper relief amid the burden of detail. The author's observations on the general political and economic climate appear somewhat extraneous or "tacked on." A tendency toward repetition and certain other oddities detract from an otherwise acceptable presentation. For example, on page 300, mention is made of one Symes, a general accountant. In line with company policy of allowing a job to become as big and important as the man, within a fluid organizational structure, Symes was making an otherwise routine post into a position of major executive responsibility. Fifty pages later the reader learns that R. W. Symes was named secretary of the firm, and fifty more pages later it is stated that Russell W. Symes became a member of the board. Professor Miller's approach emphasizes men, policies, and events rather than statistical analysis; however, the significant financial and operating data appear in the appendix.

Both authors undertook ambitious projects and produced substantial, well-documented works of lasting value which deserve not only a wide reading audience, but also careful attention from scholars.

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Swope of G.E.: The story of Gerard Swope and General Electric in American Business. By David Loth. New York, Simon & Shuster, 1958. Pp. ix + 309. $5.00.

Historians have become wary of businessman biographies and autobiographies. Perhaps "wary" is too mild a word. The output of these volumes has been prodigious, and the quality, judged from a scholastic viewpoint, extremely low. Obvious bias, lack of full information, and absence of perspective are the three chief stumbling blocks involved in historical efforts of a contemporary-biographical nature. Outright censorship is no doubt prevalent in most, if not all, cases. Given these obstacles, it is not surprising that even competent reporters have difficulty in recording factual, reasonably complete accounts of the lives of prominent business leaders who are just now passing from the stage.

Loth's biography of Gerard Swope labors under the handicaps of its type, but it is a decidedly valuable and creditable job nonetheless. To begin with, of course, the subject itself is of greatest interest. This in-

terest increases markedly as the author very skillfully unfolds the basic facts of Swope's career. The biography is truly a business biography, happily sparing the reader irrelevant details of Swope's childhood and non-business life. At the same time, however, it is only fair to note that the book's subtitle claim to being the story of General Electric in American Business is scarcely accurate. This, it is not.

Gerard Swope comes through to me as one of the most remarkable business personalities of the twentieth century. Loth devotes relatively few, but sufficient, pages to Swope's German-Jewish heritage, his youth in St. Louis, and his undergraduate years at M.I.T. Thereafter, the path leads to the Chicago offices of the Western Electric Company and a succession of promotions that by 1917 left Swope high in the Western Electric command echelon. Loth says that whereas M.I.T. classmates Alfred P. Sloan and Paul Litchfield applied business methods to their engineering training, Swope "took his engineering methods into business." This nice phrase-making leaves me a little puzzled, but the main point is clear. Swope attacked business problems in a scientific way, applying mathematical methods to cost distribution and evolving forecasting techniques based on probability laws. He also systematized the art of management under the famous Swopeian formula, "Analyze, Organize, Deputize, Supervise." Then came a notable achievement reorganizing the Army's Service of Supply in World War I. Loth's concise passages dealing with business methods in government service are extremely revealing and provocative. In 1919 Swope went to G.E., and in 1922 he was president.

Loth very clearly proves, without explicitly noting it, the ambiguity or duality of Swope's personality. This "thin-lipped and severe" man was a demon for work, for precision, for supervision. Possessed of a phenomenal memory and imbued with a constant inner tension, Swope appears variously as autocratic, reserved, sharp, ambitious, and a leader of something less than inspirational character. Yet this was the same man who, on the testimony of experts, was a superb salesman and a fantastically devoted company man. Speculative by nature, he ran his company with great, though not paralyzing, prudence. Offered a salary of $250,000 to take over the management of Goodyear Rubber, Swope declined, feeling that he wished to stay with G.E., at one-tenth that figure. His basic tenet was that in business it was not machines or plant that mattered, but rather, men. Incredibly, somehow, Swope in his early years had lived and taught at Hull House, the pioneering Chicago settlement project of Jane Addams and other turn-of-the-century social reformers. When he went to St. Louis as a well-paid branch manager, Swope bought a home in the slums where he and his wife continued the Hull House experiment in social engineering. In 1926 he suggested (fruitlessly) to William Green that the A.F. of L. organize G.E. employees. He sought security for his working force, he was a leader in pulling the electrical industry together, he urged a course of vigorous action upon Hoover after the '29 crash (a course that Hoover labeled "pure Fascism"), and he worked in closest harmony with Roosevelt and the New Dealers to create a practical Social Security program. For this,

naturally, Swope was regarded by some contemporaries as a "dangerous radical." Yet he also commanded great respect and unqualified confidence within his company and in the business community at large.

All of this story is clearly set forth by the author, who adroitly and succinctly unfolds Swope's career against the broad background of the times. Loth's failure lies in an apparent lack of familiarity with certain significant aspects of administrative history. This failure might have been partially remedied if the author had spent some time examining internal company records, which he apparently did not. The author spots the critical point when G.E. entered the consumer goods market, but does not emphasize its importance to Swope and vice versa. He understresses the significance of the centralization of G.E. management under Swope, and does not sufficiently explain the administrative crisis that is implicit in a huge business dominated by a single personality of the Swopeian variety. Swope, says the author, not only told his people what to do but how to do it. This remarkable phase of G.E.'s management evolution is not identified as a recognized phase of big business growth, nor is the G.E. experience compared with simultaneous but divergent trends in duPont, General Motors, and Standard Oil of New Jersey. A comparison here would have told a great deal about Swope, both as a man and as a manager. Loth displays, too, a certain naïveté in attributing to Swope (pp. 265–266) the invention of managerial precepts such as keeping opportunities open for the advancement of young men and pursuing a corporate policy of "full disclosure."

My final criticism is in the form of a regret that Loth did not write a longer, more detailed book. Here the pressures of alleged publication realities are evident. The goal of achieving a "readable" or "popular" biography is obvious. This is a great shame. One wonders when publishers and biographical subjects themselves will realize that the lasting, most valuable, most creditable job is rarely of the popular variety. On this issue I have great sympathy for the author, for I suspect that he may have wished to say more than he did.

It is a tribute to Loth's ability and courage that he has succeeded in conveying so much information in so short a study. Actually, I seem to pick up a great deal between the lines of this intriguing volume. It is a book that can be read casually, with interest. But historians should read it with great care, and every student of administrative history should read it. Even where Loth is on ground that is relatively unfamiliar to him, he possesses the faculty for sensing and recording key facts that can serve as the springboard for supplementary inquiries or as specific bits of evidence to be fitted into the framework of other theses. Given the inevitable restrictions that face the author of such a volume, this constitutes very high praise indeed. This study, for subtle rather than obvious reasons, is one of the best businessman biographies of the past decade.

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